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# FINANCIAL TIMES

Europe's Business Newspaper

THURSDAY MAY 20 1993

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## Rise in US trade gap prompts fear of row with Japan

Fears of heightened US-Japanese trade tension grew after an unexpectedly sharp rise in the US trade deficit to \$10.2bn in March, the highest shortfall for nearly four years. More than half the deficit was with Japan.

The deterioration is likely to prompt a sharp downward revision of first quarter growth to an annual rate of 1.0-1.5 per cent against initial estimates of 1.8 per cent. Page 14; Clinton acts to head off revolt over cuts. Page 6

**Deutsche Bank**, Germany's biggest bank, saw total operating profits rise by "a good 20 per cent" in the first four months of 1993, but the chief executive said it was unrealistic to expect this to continue throughout the year. Page 15

**Russia pledges troops for Bosnia**: Russia is understood to have pledged troops to monitor Bosnia's borders, which Serbia's president Slobodan Milosevic has promised to seal to deprive Bosnian Serbs of supplies. Page 3

**Attali to sue for libel**: Jacques Attali, president of the European Bank for Reconstruction and Development, said he would sue for libel over accusations of plagiarism and inaccuracy in his new book about President Mitterrand. Page 3

**Kohl urges spending cuts**: Chancellor Helmut Kohl demanded sharp public spending cuts as the Bundesbank warned that government policies were partly responsible for last month's surge in money supply growth. Page 2

**Head of Siemens in Italy arrested**: Giorgio Scavacca, chairman and chief executive of the Italian subsidiary of Siemens, German electronics group, was arrested in Milan on corruption charges, apparently in connection with an inquiry into the attempts to obtain telecom contracts. Page 14

**Uruguay urges regional free trade bloc**: Latin American countries should concentrate on regional trade groupings rather than pursue a continent-wide free trade zone, Uruguayan president Luis Alberto Lacalle (left) said in an interview with the FT. He praised Mercosur - a trade bloc made up of Uruguay, Argentina, Brazil and Paraguay - but cautioned against excessive faith in NAFTA which "is not a reality yet". Page 7

**S&P, UK brewing and hotels group**, reported a 14 per cent drop in first half pre-tax profits to £225m (£531m) as holiday Inns were hit by recession and the UK brewing business increased but debt provisions. Page 15

**Stock speculator sentenced**: Japanese stock speculator Mitsuhiko Kotani was given an 18-month suspended jail sentence for what a Tokyo court described as "naked manipulation" of stock prices. Page 4

**Chemical Banking** has received permission from the Federal Reserve to underwrite and sell corporate bonds through its securities arm, becoming the fifth leading US commercial bank to be granted debt underwriting powers. Page 17

**Strong franc hits exporters**: Economic recession and the strong franc have made an increasing number of the clients of French exporters unable to pay their bills. Page 7

**GTE**, largest local US telephone company, plans to sell around 500,000 access lines in nine states to Citizens Utilities, a diversified utilities group based in Connecticut, for \$1.1bn cash. Page 17

**Compass Group**, UK healthcare and catering company, is to move into continental Europe through the acquisition of the airport restaurant and contract catering business of SAS Service Partner for £71.9m (\$110m). Page 15

**Guatemalan violations**: Political killings are continuing in Guatemala, despite the civilian government's pledge to end them, Amnesty International says. Page 6

**Horrigan joins Liggett**: Edward Horrigan, who headed the tobacco business at RJR Nabisco, is re-entering the cigarette industry as chairman and chief executive of Liggett Group. Page 17

**Belgian privatisation battles Fortis**, Dutch-Belgian financial services group, and Belgian bank Générale de Banque are to battle for a stake in a Belgian state-owned savings bank in the first round of a four-year BF70bn (\$2bn) privatisation programme. Page 15

**STOCK MARKET INDICES**

FT-SE 100	2818.7	(-27.8)
Yield	4.94	
FT-SE Eurotrack 100	1147.87	(-3.01)
FT-Air Share	1383.51	(-0.74)
Nikkei	20,380.79	(+151.40)
New York Composite	3434.58	(-8.41)
Dow Jones Ind Ave	3434.58	(-8.41)
S&P Composite	435.41	(-0.91)

**US LUNCHTIME RATES**

Federal Funds	2 1/4%
3-mo Time Rate	3.00%
Long Term	7.01%

**LONDON MONEY**

3-mo Interbank	5 1/4%
Life long gilt	10 1/4%
North Sea Oil (Argus)	\$18.31
Brent 15-day (July)	\$18.31
Gold	\$374.2
New York Comex (June)	\$374.2
London	\$374.15

**STERLING**

New York lunchtime	\$ 1.537
London	\$ 1.5415 (1.5315)
DM	2.2825 (2.4875)
FF	8.44 (8.3825)
SFR	2.2725 (2.285)
Y	170.25 (170.75)
Z Index	80.5 (80.2)

**DOLLAR**

New York lunchtime	DM 1.8285
DM	1.8285
FF	5.4745
SFR	1.4795
Y	111.0
London	1.8285 (1.824)
DM	5.475 (5.48)
SFR	1.4765 (1.479)
Y	111.5 (111.55)
Z Index	64.3 (64.5)

**Tokyo close Y 111.55**

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## Fringe group blamed for riot ■ growth package to boost economy

# Danish tax rates cut as reward for treaty vote

By Hugh Carnegie and Hilary Barnes in Copenhagen and Lionel Barber in Brussels

THE DANISH government yesterday brushed aside violent demonstrations sparked by Tuesday's referendum result endorsing the European Community's Maastricht treaty, and as a reward for the Yes vote announced a programme to stimulate economic growth and employment.

The riots in an inner city district of Copenhagen left 11 demonstrators wounded by police gunfire and 26 policemen injured. They were said by officials to have been the worst post-referendum disturbances in Denmark. The government blamed a small fringe group of militant squatters.

Yesterday, the area returned quickly to normal, but local residents were braced in case of further disturbances last night. The government insisted the attacks did not represent the feelings of

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the vast majority of No voters. Mr Poul Nyrup Rasmussen, the Social Democratic prime minister, condemned the riots as an isolated incident and told parliament the government would slash marginal income tax rates to bring them closer into line with the rest of the EC. State investment plans to push up growth in gross domestic product from under 1 per cent this year to almost 3.5 per cent in 1994 would also be brought forward.

At the same time, Denmark's central bank cut the official dis-



Plainclothes police draw pistols during Tuesday night's demonstration in Copenhagen

count rate to 8.25 per cent from 9.25 per cent and commercial banks announced similar reductions in their lending and deposit rates, which had been held artificially high because of uncertainty over the Maastricht vote.

Business reaction was positive. The Copenhagen stock market, which had risen strongly in expectation of a Yes vote, put on a further 2.30 points to close at 303.89.

The tax cuts are aimed at galvanising other EC member states to rally behind a beefed-up economic growth package ahead of next month's EC summit in Copenhagen.

The Danish presidency of the EC, working with the European Commission, wants member states to consider fresh measures to stimulate growth, mainly through shifting to capital spending, making the labour market more flexible, and other fiscal incentives to create jobs.

The growth package and the unemployment crisis in the EC are top of the agenda at a two-day meeting of EC finance

ministers in Kolding, Denmark, which starts tomorrow.

In Brussels yesterday, Commission officials hailed the Danish endorsement of the Maastricht treaty in Tuesday's second referendum as giving a "psychological lift" to the Community after several months of drift.

The positive vote has given new impetus to the Danish presidency. Danish officials vowed to press for agreement on issues such as a new trade liberalisation

Continued on Page 14

## Squatters see EC as capitalist conspiracy

By Hugh Carnegie in Copenhagen

FINANCIAL journalists were not very welcome at the "youth house" in Copenhagen's Nørrebro district yesterday morning, after the violent clashes sparked by Denmark's Yes vote in the Maastricht referendum on Tuesday left 11 young demonstrators with gunshot wounds and 26 policemen injured by bricks.

"You and your businessmen, you are the ones that are pushing us down," snarled a bearded man sitting on the doorstep of the collective meeting place, drinking from a bottle of beer. "You are just like the police," added an angry young woman seated close by.

The typically black-clad, unkempt and unemployed youths that make up the loose movement known in Denmark as BZers, or squatters, were said by the police to have instigated the post-referendum riot.

No longer simply homeless occupiers of empty inner-city buildings, they are better defined these days by their anti-business, anti-fascist and anti-establishment views that see the European Community at the pinnacle of a capitalist conspiracy to deny democracy to the masses.

The main target of the rioters - apart from the police - were a number of bank branches in Nor-

Continued on Page 14

## Saarstahl failure blamed on EC policy

By Ariane Genillard in Saarbrücken and Quentin Peel in Bonn

LEADERS of the German steel industry expressed indignation and bitterness yesterday at the failure of European steel restructuring policies, in the wake of the collapse of Saarstahl, the French-owned steelmaker in the depressed German Saarland.

Thyssen, Germany's largest steel manufacturer, condemned the policy of allowing continuing state subsidies to ailing producers, and said the rest of the industry would be threatened if they were allowed to restructure their debts.

The steel manufacturers' federation lashed out at the failure of the European Community to curb production at Italy's state-owned Iva and at CSI in Spain, where the companies' debt burdens far exceed those of Germany's private sector producers. The industry condemned the policy of interfering in free market competition to protect the weakest manufacturers.

The anger of industry leaders was matched by the bitterness of workers at the Saarstahl plant, who blamed Brussels, above all, for the loss of their jobs.

Saarstahl filed for bankruptcy on Tuesday night after France's Usinor-Sacilor, which owns 70 per cent of the holding company, decided it could no longer transfer funds to cover estimated losses running at DM30m (\$18.6m) a month.

Hopes for an immediate rescue faded as both federal and Saarland authorities said no new subsidies were available. Since Saarstahl first ran into difficulties in 1978, it has received some DM3.7bn in direct subsidies, soft loans and credit guarantees.

"We are the victims of the European Community's inability to devise a coherent steel policy," said Mr Werner Fries, an official of the works council at the plant, which employs 7,200 people. "We hope the European Commission

Continued on Page 14

## Agreement would help open up German utilities to overseas competition Anglo-US group in E German energy deal

By Judy Dempsey in Berlin

A UTILITIES consortium headed by Britain's PowerGen and the US-based NRG, are close to completing a contract which will give them a 44 per cent share in generating power in Schkopau, eastern Germany.

If completed, the deal could help to open up Germany's utilities to overseas competition, officials from Vereinigte Energie AG (Veag), the east German utilities company, said yesterday.

The contract involves Power-

Gen and NRG building a 400MW power station at Schkopau, near Leipzig.

Until recently, Veag Kraftwerke Rühr (VWR) had planned to build a 500MW station at Schkopau. VWR is a 100 per cent subsidiary of PreussenElektra, which undertakes the electricity operations of Veag, the German energy-based conglomerate.

The decision to allow PowerGen and NRG to negotiate a 44 per cent share at Schkopau follows lengthy negotiations between the Treuhand, the agency responsible for the priva-

tisation of eastern German industry, Veag, which controls 70 per cent of the region's energy production, and VWR.

Veag is technically still under the Treuhand, but legally it is controlled by Germany's three giant utilities companies, and the five smaller ones, following a treaty signed in 1990. These include PreussenElektra, RWE Energie and Bayernwerk, western Germany's powerful utilities.

Under the terms of the treaty, the Stromvertrag, eastern Germany's regional utilities are obliged to buy 70 per cent of their

power from Veag over the next 20 years as a means of underwriting large investments needed to modernise eastern Germany's energy sector. This treaty, however, has had the effect of making it difficult to introduce competition into the energy sector in the region.

The consortium had earlier tried to seek a stake in generating power at Lippendorf. But the negotiations collapsed because PowerGen and NRG could not seek guarantees to gain access to the high voltage grid in order to sell its energy. The grid is controlled by Veag.

Modern methods in the pipeline, Page 10

## Technical insolvency at top Hungarian commercial banks

By Nicholas Denton in Budapest

HUNGARY's two largest commercial banks are technically insolvent and require big injections of capital, according to a World Bank paper.

The two banks, both state-owned, are Magyar Hitel Bank, heavily exposed to Hungary's troubled engineering industry, and Kereskedelmi Bank, main lender to the country's drought-stricken farms.

They have inherited debts from the Communist period, and have suffered from bad debts caused by the three-year Hungarian recession and a collapse in industry's sales to former Comecon countries.

Magyar Hitel Bank has F34.6bn (\$390m) of loans classified as bad, doubtful or sub-standard, according to the study. Taking those loans into account, the bank has negative capital of F19bn, equivalent to 7.9 per cent of its risk-weighted assets. Kereskedelmi Bank has F26.3bn in classified loans, with negative capital of F13.7bn, 8.5 per cent of assets.

The report, a World Bank internal document obtained by the Financial Times, says: "At present, most of the banks are technically insolvent according to inter-

nationally accepted accounting standards."

An infusion of F100bn (\$1.1bn) of new capital is required to bring the banking sector's capital up to 4 per cent of lending, the target the World Bank recommends. Half the new capital is needed for the two big banks.

The plight of the banks came as little surprise to Budapest's close-knit financial community, which believes the two banks are "too big to fail" and will be rescued by the authorities.

Mr György Surányi, managing director of Central-European International Bank, said: "A bank which enjoys the umbrella of the state cannot fail."

Mr István Szalkai, president of Hitel Bank, expected little market reaction, saying that the money market had already discounted the bank's loan losses by reducing credit limits.

Central bankers at the National Bank of Hungary professed confidence that depositors, knowing the banks were liquid and would be recapitalised, would not panic.

Under Hungarian accounting principles, less conservative than the World Bank's, the two banks still have positive capital.

Background, Page 15



Between 1982 and 1992, the dollar volume of stocks traded on The Nasdaq Stock Market has increased by 958% - almost triple the figure achieved by the other major US stock exchange.

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## NEWS: EUROPE

# Denmark's approval of Maastricht presents dual challenge for Community

## EC must now make the treaty work

By Lionel Barber  
in Brussels

NOW comes the hard part. After the decisive Danish Yes to the Maastricht treaty, the EC faces a dual challenge: to recapture public support for European integration and to make the much-abused treaty work.

Ever since Danish voters rejected the Maastricht treaty last June, the EC has been trapped in what Mr Jacques Delors, European Commission president, calls a period of depression and inaction - a reflection of his own state of mind as much as the mood in the Brussels bureaucracy.

But on Tuesday night, as the first exit polls showed a resounding Yes, European commissioners came bounding into the underground press room in the Bredel headquarters. For the first time in months the made-for-TV smiles looked genuine. "We can breathe again," said one EC ambassador.

The Danish endorsement of Maastricht will most likely hasten ratification in the UK, the lone treaty hold-out; more important, it builds on the Edinburgh summit last December when the UK presidency engineered a series of deals on the EC budget and enlargement which gave the Commu-

nity a more secure framework for its development to the year 2000.

The billion Ecu question is whether this framework will be of the loose variety favoured by Britain and the Danes, or whether federalist forces in Belgium, the Netherlands and the Commission will try to force the pace toward closer political and monetary integration.

The Danish vote does not provide an answer, because it does not represent a true test of public support for European union. The version of Maastricht which Denmark approved on Tuesday contains legally-binding opt-outs on core elements of the treaty, including the single European currency, EC citizenship, and defence policy.

Yet in the short-run, the special Danish deal may not matter. The battle to ratify Maastricht has come to resemble a religious war: now is the time, says one senior EC official, to focus on "real" issues such as rising unemployment, low investment, monetary stability as well as the political and economic integration of eastern Europe.

The first test of whether the Community has put an end to its introspection will be the EC summit in Copenhagen on June 21-22. Leaders will be

asked to approve a bolder-than-expected Commission paper proposing accelerated trade liberalisation with Poland, Hungary, the Czech and Slovak republics, Bulgaria and Romania.

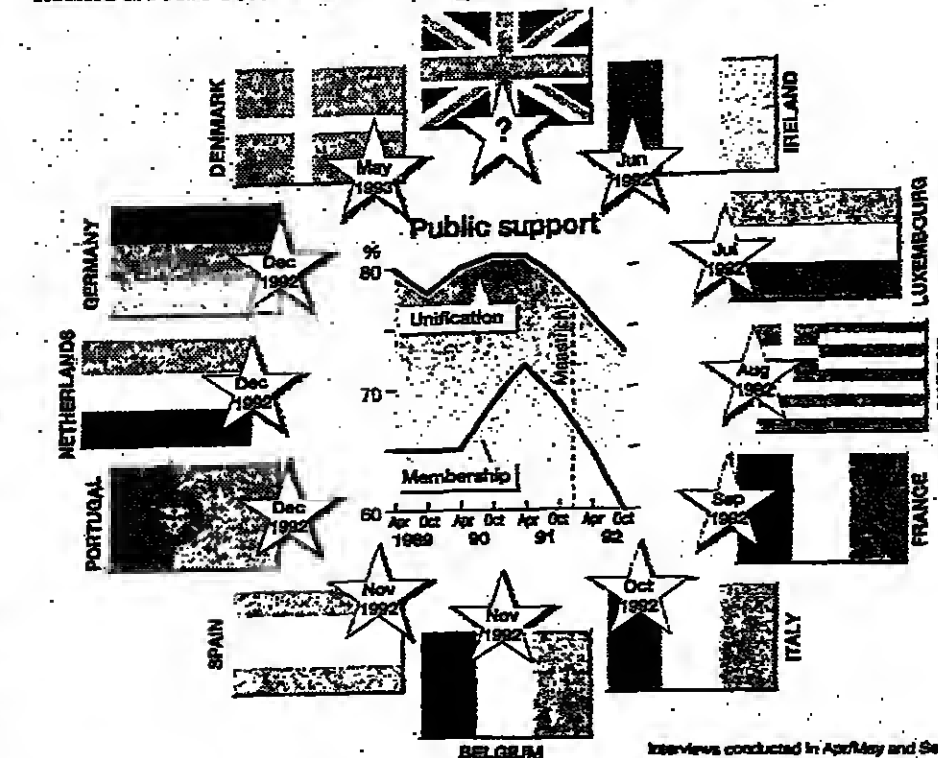
Failure to reach agreement would not only be a slap in the face for the emerging democracies in eastern Europe; it would signal growing support for protectionism in France, Spain and Portugal and would hold ill for efforts to reach agreement on a far-reaching market access package in the Gatt Uruguay Round talks at the Group of Seven summit in Tokyo in July.

The second summit test is whether member states can restore growth to their economies, reversing the rise in unemployment which will top 17.5m in the EC this year.

The Danish presidency and Mr Delors are pushing hard for a strengthened growth package, with member states shifting more resources into capital spending. But severe constraints remain, because of the Maastricht "convergence criteria" covering targets for inflation, budget deficits and government debt which member states must meet in order to qualify for monetary union.

At present, only Luxembourg qualifies on all three grounds. But when Mr Philippe Mays-

### Maastricht ratification: high noon for Britain



tadt, Belgian finance minister, said last weekend that member states should soften the convergence targets if recession continued into next year, he received no audible support.

In Brussels yesterday, Mr Wilfried Martens, former Belgian prime minister and president of the powerful Christian Democrat group of parties in Europe, disowned his Belgian colleague. "If we modify the criteria we would be taking a large political and economic risk," he said.

For the UK, which was forced out of the European exchange rate mechanism (ERM) along with Italy last September, these divisions appear to confirm what ministers concluded at the 1991 Maastricht summit: that the third phase of monetary union was not, and never would be, feasible.

Mr Douglas Hurd, UK foreign secretary, went a step further recently. "With the Community bound together by shared interests," he said, "there must

be room for flexibility provided the core remains intact. I am not talking here about a two-speed Europe, but of a Community which responds more flexibly to the increased diversity of its members."

This comes close to a Europe *à la carte*; but as a recent Royal Institute of International Affairs paper points out, the EC is already moving towards "an uncertain pattern of co-operation in different groups on particular policy areas".

# Rasmussen is quick to reward voters

THE VIOLENT riots which erupted in Copenhagen after Tuesday's vote in favour of the Maastricht treaty came as a profound shock to the government, which had hoped the result would allow political life to return to its normal calm.

The shock was all the greater because such explosions are rare in Denmark, where the political culture is based on consensus and the distance between extremes is small. Mr Poul Nyrup Rasmussen, prime minister and leader of the Social Democratic party, was yesterday at pains to emphasise that the riots represented a tiny minority and did not reflect the feelings of the vast majority of No voters.

Nevertheless, the riots reflect a society which has experienced an unusually divisive debate over the past 18 months, with the electorate being cajoled into reversing its June rejection of the treaty.

This was acknowledged yesterday by Mr Rasmussen, who moved quickly to deliver tangible benefits to the people in the form of an economic policy programme for growth and employment which was presented as having been made possible by the Yes vote.

Throughout the referendum campaign Mr Rasmussen recognised that a gap had grown up between politicians and electorate and said that European Community membership had to be seen to deliver benefits to people in their daily lives, in Denmark as well as the rest of Europe.

He described the economic measures as "an offensive against unemployment", currently running at 12 per cent. The government predicted they would bring the level down to about 11 per cent next year. "We are going to break the curve of rising unemployment," said Mr Rasmussen.

The core of the programme is a reform of the income tax system, which will substantially reduce the country's very high marginal rates. The reductions will be financed by "green" taxes on petrol, electricity, heat and water consumption. They will lead initially to a loss of revenue, but there will be a substantial boost to domestic demand next year.

Forecasts by the Finance Ministry point to a surge in the growth rate of gross domestic product from about 1 per cent this year to 3.1 per cent in 1994, with private consumption next year rising by 4.3 per cent in real terms.

According to Mr Rasmussen, Denmark's large surplus on the current account of the balance of payments, low inflation rate and relatively strong government finances mean that the country can afford these measures. However, the Danish government, which currently holds the presidency of the Community, is emphasising that the EC as a whole must adopt a co-ordinated

pragmatic policy for economic recovery. It will be pushing hard for this at next month's Copenhagen summit.

But when it comes to the Community's more ambitious long-term plans for economic and political union, enshrined in Maastricht, Denmark's approach will be severely constrained by the painful experience of the two referendums. Future governments will not be allowed to depart from the provisions of the Edinburgh opt-out agreement, which exempted Denmark from participation in the common currency, defence co-operation,

**Hugh Carnegie and Hilary Barnes on the Danish government's rapid attempt to demonstrate benefit of EC membership**

legal and police co-operation and common citizenship.

Denmark's strong economy makes it a natural candidate for participating in the third and final stage of European monetary union, a move which is supported by the business community. But Mr Rasmussen said this week that the government would stick by the Edinburgh opt-out on the common currency. "That is the position of this government," he said.

The right-wing Liberal party, led by Mr Uffe Ellemann-Jensen, foreign minister for more than 10 years until last January, has already espoused the cause of dropping the Edinburgh opt-outs at a later date. Like all the other political parties, though, it has promised to submit any changes in the Edinburgh deal to further plebiscites.

The provocative Mr Ellemann-Jensen's cause has found few supporters. After a long and divisive debate on the Maastricht issue, most politicians want to see a restoration of national consensus on the European issue.

This may not be as difficult as might be imagined. Tuesday night's riots notwithstanding, the debate has generally been conducted in a friendly spirit.

The riots, said Mr Niels Helveg Petersen, foreign minister, "are in no way an expression of what the majority of No voters feel. We are not a deeply divided society. We have had a referendum and therefore there have been differences of opinion, but the differences will disappear again from today."

# Tensions ease in exchange rate mechanism

By James Blyth,  
Economics Staff

DENMARK'S ratification of the Maastricht treaty continued to ease tensions inside the European exchange rate mechanism (ERM) yesterday, allowing several countries to cut interest rates and leading to more investment in currencies and bonds outside the D-Mark bloc.

The central banks of Denmark, Portugal and Sweden, all of which had followed tight monetary policy to maintain their exchange rates against the D-Mark, cut their official short-term interest rates yesterday.

Inside the ERM, Denmark reduced its discount rate by 1 percentage point to 8.25 per cent, while Portugal took 2 points off its "mop up" rate, reducing it to 13 per cent. Sweden's central bank reduced its overnight lending rate by 1/4 of a percentage point

to 8.75 per cent, its fourth successive cut of a quarter point in the past month.

The Danish vote also compounded the outflow of funds from the D-Mark into the dollar and European currencies, as dealers took the view that monetary union was back on track.

Sterling and the Italian lira both appreciated against the German currency yesterday, despite the Bundesbank's decision not to reduce its official interest rates at its fortnightly council meeting.

The German currency also fell to an historic low against the Japanese yen, hitting ¥88.05.

The yields on Italian, Swedish and Norwegian government bonds have also fallen recently at the expense of German bonds.

Their yields were yesterday about 20 to 30 basis points lower than a week ago.

# Green light for expansion talks

David Gardner on the prospects for Community of 16

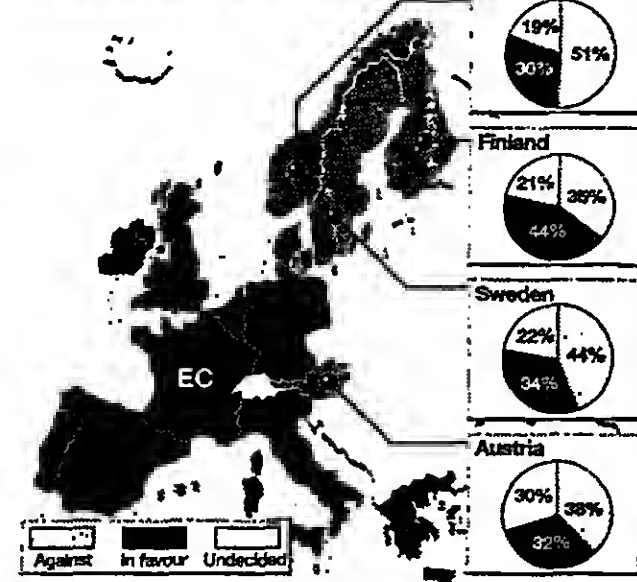
DENMARK'S Yes to Maastricht means talks will go ahead on EC membership by 1995 for Sweden, Finland and Norway and Austria. However, it is by no means a foregone conclusion that the citizens of all four applicants will want to join.

Opinion polls indicate that probably none of them could muster a majority for entry at present - and all of them will hold a referendum before deciding.

The four governments are looking to the Danish outcome to lift waning enthusiasm about membership. As Mrs Gro Harlem Brundtland, Norway's prime minister, underlined last month, "the Danish No [of last June] broke an upward trend for unification all over Europe". A Yes now, she said, was a vital precondition to turn that trend around.

All applicants except Finland need big turnarounds, and all need unequivocal victories for often uncompromising demands. Moreover, it has been made clear that they

### Enlargement: a distant hope



must accept not only existing EC legislation, but the full Maastricht treaty. Opt-outs of the type conceded to Denmark and Britain are only for existing members of the club.

As Mr Hans van den Broek, commissioner in charge of the negotiations, made clear on Tuesday night as the Danish results came in: "If the outcome... had been No, there would have been no Maastricht

treaty and no basis on which to conduct the enlargement negotiations." This rigid posture is the official policy of all 12 existing member states; not even the UK has demurred.

Getting the negotiations started before ratification of Maastricht was a feat in itself. The original, federalist-minded six member states suspected that semi-detached late-joiners such as Britain and Denmark

wished to dilute European political and monetary union by taking in their own former colleagues in the European Free Trade Association (Efta). Southern member states such as Spain worry about a shift northwards in the EC's centre of political gravity. The caricature of both views is that the British and the Danes want simply a loose free trade area with a few indispensable political frills.

However, the new entrants say they want to participate in the monetary union, and the common foreign and security policy laid down by Maastricht. Though all except Norway are militarily neutral, they are cautiously receptive to an eventual European defence arrangement in the post-cold war era. Moreover, they favour a "deepening" in areas such as environment and social policy, with more of the majority voting which Britain sees as eroding sovereignty.

With negotiations at an early stage, it is not clear whether the applicants can get satisfaction. Even less clear is whether federalists like the Benelux countries will insist that decision-making procedures designed for six members, already creaking with 12, must be reformed before the EC expands to 16 and more.

# Kohl demands harsh public spending cuts

By Christopher Parkes in  
Frankfurt and  
Quentin Peel in Bonn

CHANCELLOR Helmut Kohl yesterday demanded harsh cuts in public spending as the Bundesbank warned that his government's policies were partly to blame for an unexpected surge in money supply growth last month.

M3, regarded as a key indicator of future inflation, expanded at an annualised rate of 7.3 per cent, after trailing well below the lower target level of 4.5 per cent during the previous three months.

Inclusion in the 1994 draft budget, to be finalised on July 13. His warning coincided with the release of central bank figures showing growth in the M3 measure of money supply had shot though the bank's upper target level of 6.5 per cent during April, despite a significant slowdown in bank lending.

The provisional figures, released during a meeting of the Bundesbank's policy-making council which elected to leave key discount and lombard interest rates unchanged, underline the government's

difficulties in meeting Bundesbank demands for spending restraint. Recession is hitting into state revenues and forcing up welfare and unemployment payments. The need for renewed efforts to prune public sector spending stems from a forecast shortfall in tax revenues of DM25.5bn next year and a total of more than DM100bn for the period up to 1996.

One encouraging sign in the figures was a marked deceleration in the rate of bank credit growth, a major influence on

M3. Lending to enterprises and individuals in April rose DM13.5bn after an increase of DM20bn in March.

Credit expansion in the six months to the end of April had grown at an annualised rate of just over 8 per cent compared with almost 9 per cent in the period to the end of March.

Meanwhile, monetary capital formation, the transfer of funds into longer-term deposits and instruments not included in M3, had weakened and rose only DM2.9bn after a DM13bn increase in March.

### E Germans begin return to work

By Judy Dempsey in Berlin

STRIKING east German metal and electrical workers began returning to work yesterday after accepting last Friday's so-called Saxony compromise postponing by two years equalisation of wages in the two parts of the country.

However, IG Metall, the powerful engineering union, is insisting the strikes will continue unless wages for the steel sector match those in the metal and electrical industries.

Union officials in Berlin-Brandenburg, where most of the steel sector is located, said the agreement widens the income differentials between steel and metal workers. Over 7,000 steel workers have been on strike for the past 16 days.

# SPD urges jail terms for insider dealing in shares

By Quentin Peel in Bonn and  
David Waller in Frankfurt

GERMANY'S opposition Social Democrats yesterday called for statutory jail sentences to deter insider dealing in shares, as Mr Franz Steinke, leader of the country's most powerful union, struggled to contain calls for his resignation from his own rank and file.

The leader of the IG Metall engineering union has denied insider dealing, but admits speculating in almost DM1m (£400,000) worth of shares in MAH, a Daimler-Benz holding company.

He is on the Daimler supervisory board, which decided to dissolve MAH and exchange

its shares for full Daimler shares on April 2 - causing a 20 per cent jump in the MAH share price. Mr Steinke admits to making a profit of DM64,000.

The affair threatened further ramifications yesterday when Mr Hilmar Kopper, chief executive of Deutsche Bank and chairman of the Daimler supervisory board, came under strong attack from shareholders at his bank's annual meeting for the way the decision to dissolve MAH was announced.

Daimler made the announcement at 4 pm on April 2, well after the close of floor trading on German stock exchanges. However, it prompted a sharp rise in the MAH share price in trading conducted over the

IBIS electronic dealing system. Meanwhile, BIG Bank, the former trade union bank that carried out Mr Steinke's share purchases, is investigating how information had been leaked to the press.

Pressure for legislation to control insider dealing - not an offence in Germany - was fuelled by Mr Uwe Jens, SPD economics spokesman. He called for a law based on US legislation, which provides for up to two years in prison. "It needs a jail sentence to provide an adequate deterrent."

Although he refused to comment on the Steinke case, other members of the SPD have joined calls for him to quit, as have rank-and-file members of IG Metall.

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هكزامن الاصيل



## Russia offers troops for Bosnia's borders

By Robert Mautner,  
Diplomatic Editor

RUSSIA has given a pledge to the international mediators on the Yugoslav crisis that it will provide troops to monitor Bosnia's borders, officials close to the peace conference said in Geneva yesterday.

The officials said the undertaking was given over the telephone by Mr Andrei Kozyrev, the Russian foreign minister, in Rome to meet European foreign and defence ministers attending a meeting of the Western European Union defence organisation.

The number of troops to be provided by Russia has not been specified but is understood to be relatively small. The mediators, Lord Owen and Mr Thorvald Stoltenberg, were due to fly from Naples to Ukraine and Belarus yesterday to ask for similar pledges from those two countries.

Lord Owen and Mr Stoltenberg, who want to start implementing their peace plan for Bosnia, in spite of its rejection by the Bosnian Serbs, are pressing members of the UN Security Council to commit troops for this purpose. Monitoring the Bosnian borders, which President Slobodan Milosevic of Serbia has undertaken to seal in an effort to deprive the Bosnian Serbs of much-needed supplies, is part of the overall strategy to force

United Nations human rights investigator, Mr Tadeusz Mazowiecki, said yesterday that the Vance-Owen plan to partition Bosnia had accelerated ethnic cleansing. Reuters reports from Geneva.

The former Polish prime minister said the west's failure to halt human rights violations by Bosnian Serbs had created a "precedent of impunity" that had encouraged Bosnian Croats to commit similar crimes. He criticised "the lack of an international response" to counter the policy of ethnic cleansing.

the latter to accept a settlement of the conflict.

Both Mr Kozyrev and Lord Owen said Tuesday's truce agreement between the warring Bosnian Muslims and Croats, formerly allies in the struggle against Serb domination, was a first sign that the peace plan could start to be implemented at least partially.

The US, however, has made it clear that it does not consider it realistic to implement the plan as long as it has not been accepted by all parties to the conflict and has stressed that it will not contribute ground troops to an international peace-keeping operation until the fighting has stopped.

The continuing disagreement between the major powers on what action to take following

the rejection of the Vance-Owen plan by the Bosnian Serbs led to Washington's refusal to attend a special Security Council meeting at foreign minister level, which Mr Kozyrev proposed for Friday to discuss Bosnian policy.

However, both Mr Kozyrev and Mr Warren Christopher, US secretary of state, have played down reports of a serious rift between their two countries or between the US and its European allies.

Mr Kozyrev, as well as Mr Douglas Hurd, British foreign secretary, and their French opposite number, Mr Alain Juppé, are due to meet Mr Christopher in Washington at the end of this week.

Mr Christopher said yesterday he was sure he would find some common ground on Bosnia in his talks with the three foreign ministers.

Bosnian Serbs voted by 98 per cent to reject the Vance-Owen peace plan for Bosnia in a referendum last weekend, dismissed as irrelevant by the international community because of the conditions in which it was held.

After the result, Mr Radovan Karadzic, Bosnian Serb leader, said his people would never give up their self-proclaimed Bosnian Serb republic, though they would be ready to accept a confederation with separate Croat and Moslem states within Bosnia-Herzegovina.

## Last Tsar is first icon of latest revolution



A Russian teacher distributing to her pupils portraits of the last Tsar Nicholas II, to mark yesterday's 125th anniversary of his birth

## Attali to sue over plagiarism claim

By David Buchan in Paris  
and Reuters

MR Jacques Attali, president of the European Bank for Reconstruction and Development (EBRD), said yesterday he would sue for libel over accusations of plagiarism and inaccuracy in his new book about the early Mitterrand years.

Mr Attali said yesterday he would sue the weekly magazine, Le Nouvel Observateur,

for alleging that his new 960-page book, *Verbatim*, recording Mr François Mitterrand's time at the Elysée between 1981 and 1986, had plagiarised conversations which the president had had with Mr Elie Wiesel, the Nobel Peace prize-winning American author.

Mr Attali told a radio station that "at my initiative, the president had some conversations with Elie Wiesel which were broken off and were never the subject of a contract

with any publisher or of any written work".

"The two men are no longer under any obligation to each other. The president authorised me to use what he had said in my book, and Elie Wiesel told me he intended to do the same in his own memoirs."

Mr Attali, who was President Mitterrand's closest aide during the 1980s, said yesterday. Le Nouvel Observateur said last night it had not yet received any legal writ from

Mr Attali or his lawyer. Mrs Odile Jacob, a leading French publisher, had intended to publish the conversations as a book later this year. Mr Attali said the president had proof-read *Verbatim* line by line.

Mr Attali has been under fire recently over the amount spent on fitting out the EBRD headquarters in London. The international governors' board of the EBRD has ordered an audit into the spending.

## French police to get wider powers

By David Buchan in Paris

FRENCH police will have a freer hand to make spot security checks under a draft law which the cabinet of Prime Minister Edouard Balladur approved yesterday for submission to parliament.

The measure will relieve police of their current need to prove that an individual was behaving suspiciously before checking his identity card, and forms part of the centre-right government's electoral pledge to improve law and order in French cities.

Mr Nicolas Sarkozy, the government spokesman, denied this constituted any threat to civil liberties which, he said, in reality came from "insecurity on the streets". President François Mitterrand, who, under the bizarre cohabitation system presides over the formal cabinet meetings of his political opponents, was said to have acquiesced because the draft law provides for possible judicial review of such street searches.

Nonetheless, civil rights groups have complained that young people and immigrants will inevitably be the target of freer police checks.

Last week the National Assembly endorsed a move - which had started in the Senate when the Socialists were still in power - to make the offer of French nationality to immigrants less generous. The new nationality law removes the automatic right of children born in France of immigrant parents to acquire a French passport.

## Italy's bribes scandal has multinational air

By Haig Simonian in Milan

THE arrest of Mr Giorgio Scanavacca, managing director of the Italian subsidiary of Siemens, the German industrial group, casts a further shadow over the activities of foreign multinationals in Italy's widening political corruption scandal.

It is almost a year since ABB, the Swiss-Swedish engineering and electronics group, first appeared in the investigations, then still largely limited to Milan. The group was alleged to have paid about L16bn (\$10.8m) in kickbacks to obtain orders for the city's underground railway line.

The foreign trail went relatively cold thereafter, bar a further bout for ABB, whose chief executive in Italy, Mr Umberto Di Capua, was arrested and briefly jailed on allegations believed to be linked to the metro orders. Mr Di Capua, who only joined the company after the completion of the new line, was released soon after.

However, in the past week,

the foreigners have been making a comeback. Last week saw the arrests of senior executives from the Italian subsidiaries of both Sweden's Ericsson and GEC of the UK on allegations linked to contracts from ASST, the former state telephone agency.

The list has now been lengthened with the detention of Mr Scanavacca as Milan magistrates pursue their latest line of investigations into alleged bribes on orders for telecommunications equipment.

However, the German group is not a complete stranger to the corruption scandal. In May 1992, investigations into alleged corruption in a hospital south of Milan, triggered allegations that the company had handed over about L50m in kickbacks to win a contract.

The impact on the standing of foreign companies in Italy is still being digested and public reaction has been limited so far. Officials at Ericsson were unavailable for comment yesterday, while a Siemens official

had "no comment" to make on the arrest of Mr Scanavacca beyond pointing out that he had come forward to testify before magistrates voluntarily on Tuesday evening. The official also pointed out that Siemens Telecommunications, the subsidiary chaired by Mr Scanavacca, was formerly owned by GTE, the US telecoms group, prior to its takeover by Siemens in 1987-88. The subsidiary specialises in public networks and transmission systems.

So far, only ABB appears to have taken its alleged involvement on board. Well before the inauguration of Fiat's new "ethical code of business practice" last week, the company had already moved to tighten up its procedures. The group already had a chapter on ethics in its booklet on business values drawn up in 1988.

Following its brush with the Italian magistrates, procedures at its subsidiary were reinforced, with executives obliged to sign a letter committing themselves to respecting the national law in any dealing with public-sector employees.

## Japanese puts EC steel plan to the sword

By Haig Simonian

MR Hayao Nakamura, the former Nippon Steel executive now managing Italy's loss-making Iva state steel group, yesterday questioned the authority of the European Commission to dictate future capacity cuts. "If competition policy means fair trade, that's fine. But if by competition they mean acting as judges, then that's not acceptable," he said. "We have to establish what are the rules of the game."

Mr Nakamura called for a "gentlemen's agreement" between European steel producers to combat the industry's crisis by raising prices and agreeing production cuts, in line with Japanese practice, rather than have the Commission impose plant closures.

"Everyone knows there's overcapacity of airline seats across the Atlantic and Lufthansa is losing more money than any other airline. But no one has called on the Germans to scrap half their jumbo jets. It's the same thing with steel," he argued.

Mr Nakamura, in his first newspaper interview since taking over at Iva, was reacting to a letter earlier this week to a letter from Mr Miert, the EC competition commissioner, to Mr Paolo Savona, the Italian industry minister, outlining problems with Iva's latest restructuring plan.

The plan, presented to the Commission last month, involves the creation of a new Italian state steel producer,

based on Iva's big Taranto integrated steelworks, and the transfer of other plant and about L2,500bn (£1.1bn) in debt to Iri, the state holding company which controls Iva.

In his letter to Mr Savona, Mr Van Miert argued that the Iva plan involves substantial state aid and might have to be accompanied by up to 3m tonnes of capacity cuts if it were to go along with the EC steel plan. Mr Nakamura questions both the Commission's interpretation of state aid and its right to intervene.

"Iri is no longer a state entity but a joint stock company. If Van Miert says it's aid, we're starting off at odds and there is no point in carrying on," said Mr Nakamura.

The comments illustrate the Italians' belief that the Commission's attitude towards Iva is one-sided and based on pressure from leading north European steel producers, principally the Germans. "I want to be a good partner to other European steelmakers. But they are our colleagues, not our controllers," he said. Mr Nakamura, who took over the top job at Iva in January, claimed it could not be accused of overcapacity or of dumping. Iva exported only 16 per cent of its output and exports were widely diffused rather than concentrated in just a handful of markets, he argued.

He implied that the Commission's approach reflected the desire of some big north European steelmakers to eliminate



Van Miert: Under fire in Italy

capacity from southern competitors to gain market share. "They want to send advisers into our plant to supervise capacity but I won't let them in," he said. Iva, which made a net loss of more than L2,300bn last year, has only 43 per cent of the Italian market, Europe's second biggest.

"We could sell 100 per cent of our production in Italy, so why should we cut output? For the sake of the Italian public, or for the sake of the German public? What harm do we do to other producers?"

Mr Nakamura said that Iva would be prepared to make production cuts to its current output of about 8m tonnes, but only in return for aid from the government. As the Italian government has refused to provide funds, large cuts were out of the question, he implied.

He said that the company, which he forecast would make a net loss of about L1,700bn this year, would close the remaining steel facilities at its Bagnoli plant in Naples independently of any Community agreement.

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# UN chief in Cambodia dismays staff

By Victor Mallet  
in Phnom Penh

UNITED NATIONS staff in Cambodia were agitated yesterday when their chief attempted to ease fears about possible Khmer Rouge artillery attacks during next week's election by saying that the guerrillas often missed their targets or used ammunition which failed to explode.

Mr Yasushi Akashi, head of the UN Transitional Authority in Cambodia (Untac), summoned staff at Untac headquarters in Phnom Penh and told them it was "more than likely" that the Khmer Rouge would try to disrupt the election by mining roads leading to polling stations and harassing voters.

"There may even be some bombardments and rocket attacks aimed at some of the polling stations," he said as the official campaign period drew to a close. "In most cases they will miss the targets but we have to be prepared... We cannot afford too many more sacrifices among our colleagues."

Many UN officials expressed their dismay at Mr Akashi's remarks. In contrast to his previously optimistic assessments of the UN's \$2bn (\$1.2bn) peace-keeping mission in Cambodia, he has gone out of his way this week to paint a gloomy picture of the election, possibly so that the reality will not seem so bad.

Mr Akashi spoke of the three main challenges facing Untac's 22,000 peacekeepers and election workers: the military

threat from the Khmer Rouge, which has flouted a 1991 peace agreement and threatened to disrupt the voting; the violence and intimidation carried out by government forces against their political opponents; and the consequent warnings by opposition parties that they might withdraw from the poll.

"It's quite clear that [these are] less than optimum conditions in terms of a free and democratic atmosphere," he said. Dozens of Cambodians working for opposition parties have been murdered, apparently by government forces, and 13 Untac staff have been killed by landmines or gunmen.

Mr Hun Sen, the prime minister of the Phnom Penh government - which has not been recognised internationally and is regarded by the UN as one of the four main Cambodian factions - yesterday sought to reassure his critics by insisting that his administration would hand over power if it lost the election.

"We consider ourselves as sports," he told a news conference. "We are prepared to transfer everything to the winner... but perhaps the situation might not turn out that way, because some parties are now reorganising their armies at the border in order to prepare themselves to continue the fighting in case they lose the election."

He added: "Even if we win an absolute majority we would invite the other parties to join a government of national reconciliation."



Campaign workers make a last effort to whip up support in the streets of Phnom Penh yesterday

# Pacific neighbours try to patch quarrels

Kevin Brown on 'down-under' diplomacy

THE SYDNEY Morning Herald's main story yesterday, headlined "PM sends Kiwis \$500m welfare bill" was accompanied by a cartoon showing a New Zealander lying on an Australian beach and saying he had emigrated because job opportunities were better there.

Almost all Australia's daily newspapers carried front-page reports of a briefing by one of Mr Paul Keating's senior aides on the agenda for the prime minister's four-day visit to New Zealand, which starts in Wellington today.

The media coverage reflects Australian prejudices about New Zealanders, who are widely believed to have taken an unfair advantage of reciprocal immigration and social security arrangements between the two countries. However, the story was regarded with puzzlement in Wellington, where Mr Keating's visit is regarded as an opportunity to ease recent strains in the bilateral relationship.

In particular, Mr Keating was thought to want to soothe resentment caused by Labor's occasionally vitriolic criticism of New Zealand's free market economic policies.

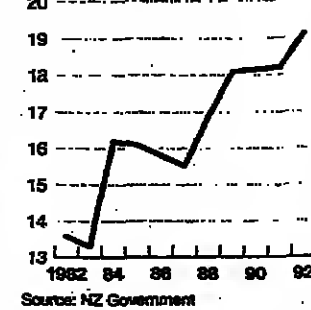
Ironically, the growing Australian resentment about New Zealand immigrants has been accompanied by rapid progress towards economic integration following the 1983 Closer Economic Relations (CER) agreement. Studies show that both CER and the parallel Trans Tasman Travel agreement, which guarantees free movement of Australian and New Zealand citizens, have delivered net benefits to both countries.

Free trade in manufactured goods was established in 1990, and bilateral trade is growing at 12 per cent a year. However, the greatest benefits have accrued to New Zealand, which now sends 19 per cent of its exports to Australia.

As a result, the relationship with Australia has become a high priority for New Zealand, which virtually ignored its larger neighbour until the 1980s. Mr Jim Bolger, the conservative New Zealand prime minister, would also like a successful round of talks to improve his image in the

## New Zealand

Exports to Australia as a % of total exports



Source: NZ Government

approach to a difficult election later this year. However, there are a number of areas in which agreement may be difficult: ● New Zealand wants to see rapid progress on "second generation" CER issues such as harmonisation of standards, corporate taxation law, business law and investment rules. It also wants greater access to markets such as telecommunications, coastal shipping and insurance.

Some progress has been made, partly as a result of the inclusion of New Zealand ministers in most of Australia's ministerial councils, which coordinate federal and state government approaches to such issues. But Mr Bolger will be seeking an indication that harmonisation remains a priority for Australia, and that the speed of reform will be increased by the re-elected Labor government.

In particular, New Zealand would like to tie up an agreement on pre-clearance for airline passengers, which has been held up by Australian concerns about New Zealand's visa requirements for third countries.

● Mr Bolger will try to defuse the welfare row by agreeing to a review of reciprocal social security arrangements, especially for pensioners, but he will resist any attempt to weaken the free travel agreement. The Australian government has been under pressure from its trade union allies to restrict access for some workers, especially sheep shearers, who are accused of undercutting established wage rates.

● Canberra has been perturbed by New Zealand's sup-

port of the North American Free Trade Agreement, which Australia sees as a potential threat to Japan, its biggest trading partner.

New Zealand has worked hard behind the scenes to allay Australian fears, but Mr Keating will be seeking assurances that Wellington remains committed to the integration of both Australasian economies into the Asia Pacific region.

Mr Bolger, who returned on Tuesday from a trip to Japan, China and South Korea, said last week that he was "comfortable" with Wellington's increasingly close relationship with Asia.

New Zealand's trade is more geographically diversified than Australia's, and Wellington is less enthusiastic than Canberra about the prospects for regional trading organisations such as the Australian-inspired Asia Pacific Economic Co-operation process.

● New Zealand's nine-year-old anti-nuclear legislation, which bans visits by nuclear armed or powered ships, has reduced the effectiveness of the Anzus defence pact, which links Australia, New Zealand and the US. Mr Bolger would like to repeal the legislation, but is unable to do so because it is strongly supported by voters of all parties. As a result, the US has suspended exercises with the New Zealand armed forces, restricting its access to intelligence and military equipment.

Canberra has continued bilateral defence links with New Zealand, which include a joint frigate programme, but Australian ministers have recently made clear that they will not support a return to three-way exercises until the nuclear ban is abandoned. Mr Keating may also express concern about the falling level of New Zealand defence spending.

There is one area in which the two leaders will be in complete agreement: both want to see a rapid conclusion to the Uruguay Round talks on the General Agreement on Tariffs and Trade. Both countries would gain substantially from liberalisation of agricultural trade, and the talks are likely to conclude with a joint appeal to the US and the European Community to stop hickering over the details.

# Untac under fire over human rights failure

By Victor Mallet

ASIAWATCH, the US-based human rights group, yesterday accused the United Nations Transitional Authority in Cambodia (Untac) of failing to deal effectively with human rights abuses and said it had thereby left the way open for further abuses in the future.

"Hundreds of serious abuses have been documented by Untac, but few have been publicly exposed or redressed," AsiaWatch said in a report. Untac's failure was serious because its

mandate emphasised measures to assure human rights in view of Cambodia's tragic history, the report said.

Abuses had been committed by all the main factions: the UN had continued to court the Khmer Rouge after the guerrillas had slaughtered Vietnamese and Cambodian civilians, and it had failed to dislodge or prosecute government officials who condoned the murder and intimidation of opponents.

AsiaWatch urged Untac to appoint an independent tribunal to ensure that suspects in Untac investigations were

properly tried, and suggested the government to emerge from next week's election should give priority to creating an independent judiciary.

AsiaWatch also said Thailand should be pressed to arrest Pol Pot, the extreme left-wing Khmer Rouge leader, for crimes committed during the organisation's reign of terror in Cambodia from 1975 to 1978, "rather than providing him shelter and protection".

Pol Pot and his associates are blamed for the deaths of an estimated 1m Cambodians. He now has a house in eastern

Thailand near to the Cambodian border and has close relations with Thai military officers.

The report recommended that the UN should improve its monitoring of the border to ensure that timber and gems do not go into Thailand in violation of sanctions and provide foreign exchange for the Khmer Rouge. Consumers and traders - including those from Japan, Vietnam and Thailand - should be punished if they broke the embargoes.

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## Osaka and Tokyo see 5% declines

# Japanese city land prices fall

By Robert Thomson in Tokyo

LAND PRICES in Tokyo and Osaka, Japan's two largest cities, continued to fall in the first quarter this year, putting added pressure on financial institutions exposed to the property market.

The National Land Agency said the greater Tokyo residential price index fell an annualised 5 per cent during the period, compared to 8.2 per cent in the previous quarter, while commercial prices fell 5.9 per cent, against 9.2 per cent.

Officials at the agency said the slowing of the fall suggested that the market was close to touching bottom, but most Japanese banks and other property-related lenders had hoped the downward trend would be reversed in the first quarter.

The falls are undermining the value of property collateral held by financial institutions, which fuelled speculative investment in the market during the late 1980s, when it was predicted that Japanese land prices would never fall.

Commercial prices in Osaka fell 5.2 per cent during the quarter, while the residential index fell 4.3 per cent in that city. It was a particularly popular location for building "investment apartments", many of which remain empty.

However, the agency said there was evidence of a revival of interest in residential property in Japanese cities, but buyers are now more selective about the areas for investment than during the 1980s, when even properties far from public transport appreciated sharply.



Kotani: bubble bursts

# Kotani given suspended sentence

By Robert Thomson

THE MOST famed stock speculator of the "bubble era" in Japan, Mr Mitsuhiko Kotani, was yesterday given an 18-month suspended jail sentence for what the Tokyo District Court described as the "naked manipulation" of stock prices.

Mr Kotani, 66, had pleaded guilty to manipulating the stock price of Fujita Kanko, a tourism company, but the court also condemned banks and brokers which assisted Mr Kotani's speculation over Japanese markets in the late 1980s.

The group, Koshin, bought shares in companies ranging from Janome, a leading maker of sewing machines, to Kokusai Kogyo, an aerial survey company, which it first attempted to greenmail and then took over when the management was unwilling to buy back the Koshin stake.

Mr Kotani admits that his group earned about ¥31bn (\$150m) through manipulating Fujita Kanko's price, which rose 40 per cent during one week in April 1990. The money was needed to complete the purchase of Kokusai Kogyo.

While Mr Kotani admitted

the charge, he suggested that he did not intend to deceive other investors into buying the stock, while his lawyers argued that Fujita itself and Tobishima, a formerly conservative construction company, had played an important role in the manipulation.

In the late 1980s Mr Kotani, became one of the brightest stars of the "bubble era". His downfall, which came with the collapse of stock prices, has left a range of politicians and bankers open to criticism. A former environment minister was charged with tax evasion on profits

allegedly made through Kotani stock tips, while the deputy head of Sumitomo Bank's domestic business division resigned to take responsibility for the bank's dealings with him.

The court said yesterday that the securities companies which assisted Mr Kotani in his share raids and price manipulation were "partly responsible" for the affair, and the Tokyo market had been "warmed from fair and just". Mr Kotani still faces a separate charge of extorting ¥30bn from Janome, the sewing machine company.

# US verdict disappoints Ramos

PHILIPPINE President Fidel Ramos yesterday expressed disappointment over a US federal jury verdict clearing Westinghouse Electric of bribery.

An elated Mrs Imelda Marcos said the decision vindicated her late husband, AP reports from Manila.

The jury on Tuesday found that Westinghouse and a New Jersey engineering company paid no bribes to the then President Ferdinand Marcos to win a nuclear power contract, an allegation made by the government of President Corason Aquino, his successor.

Mr Jess Sison, presidential spokesman, said the Philippines would continue to pay back a loan from Westinghouse for the \$2.3bn (£1.5bn) plant cost in 1976. Daily interest alone costs \$300,000 and the principal is the biggest single portion of the country's foreign debt burden of \$30bn.

Mr Francisco Villa, state prosecutor, said the government would appeal against the verdict.

The 620MW nuclear plant on the Bataan peninsula, the country's only nuclear power plant, was completed in 1985 but never started up by the Aquino administration.

The Marcos family faces more than 80 criminal and civil charges in the Philippines in connection with alleged corruption, but none of the trials has been completed.

# Inside South Africa's atomic laager

South Africa on Tuesday proposed to ban the manufacture of nuclear and biological weapons.

This followed an announcement earlier this year by President F W de Klerk that Pretoria had dismantled six nuclear

weapons built between 1974 and 1990.

The proposed law aims to ensure compliance with international treaties and conventions governing nuclear and biological weapons, including monitoring dual-use

equipment.

A United Nations embargo prevents the sale to South Africa of arms as well as other items including supercomputers, which have military potential.

Mr Derek Keys, minister of finance, trade and

industry, told parliament:

"The object of the bill is further to promote and ensure free trade with the international community."

Senior South African officials participated in a recent conference on nuclear non-proliferation in Africa

held in Harare in association with the University of Zimbabwe.

John Simpson, Darryl Howlett and Jeremy Gifford of the Programme for Promoting Nuclear

Non-Proliferation examine what is known about South Africa's nuclear programme.

SOUTH African officials told PPN that their nuclear capability was not intended for use against Soviet-backed Cuban or African forces as had been previously suspected. Instead, it is claimed this capability was designed to secure western intervention, in particular from the US, in the event of an imminent threat of attack by Soviet-backed forces.

South Africa would then have conducted a nuclear test to demonstrate its possession of nuclear devices. By signalling that further devices existed, South Africa thus expected to secure western intervention to halt the conflict and neutralise Soviet nuclear capabilities.

South Africa's nuclear doctrine, which might be termed catalytic deterrence, was never disclosed and has no direct historical parallel in nuclear strategy. Nuclear weapons states have tended to regard their unilateral readiness to use nuclear weapons as central to credible deterrence.

South Africa's strategy was driven by its perceived vulner-

ability to a Soviet-inspired attack through neighbouring African states, backed by the threat posed by Soviet nuclear weapons capabilities. It was felt that this threat could be neutralised only by directly linking South Africa to the west's nuclear deterrence umbrella.

South Africa's nuclear strategy had three stages. PPN was told. The first was a deliberate policy of ambiguity. South Africa would "neither confirm nor deny" the possession of nuclear explosive devices. It was thought that this stance would persuade western states to pressure the Soviet Union into exercising restraint in the region.

If this policy failed, and a substantial military threat emerged, a second stage would be implemented. This was the detonation of a nuclear device. It was assumed that this would lead to frantic western diplomatic activity both to prevent any nuclear devices actually being used and to constrain the Soviet Union and its allies from further military action. The South Africans may thus

have hoped to obtain western nuclear security guarantees in return for their non-use of nuclear weapons and for nuclear disarmament.

If this did not produce the desired results, the third stage would be initiated by revealing to the west the existence of a stockpile of devices.

The strategy was conceived

deterrent strategy. Of the seven devices, three were for use at the Vastrop test site. The remainder were intended as back-ups in the event of a test failure and for demonstrating the existence of a stockpile.

Three shafts, drilled to a depth of 180 to 200 metres, were planned for the test site,

but one shaft had to be abandoned because of geological difficulties. The other two were completed by 1977 and, although equipped with some instrumentation, were never used.

The nuclear devices also appear to have been less advanced than previously assumed. In view of the catalytic strategy, it was decided to develop a nuclear explosive device, not a deliverable

weapon of the type currently deployed by the nuclear weapon states.

The device chosen - a gun assembly design - was similar in concept to the "laboratory weapon" dropped by the US on Hiroshima in 1945. It had a yield of 12-15kt and used uranium 235, which could be mined and enriched within South Africa.

Light can also be shed on other mysteries surrounding the South African nuclear programme. Intense speculation has surrounded the detection of an unusual double flash in the South Atlantic by a US satellite in 1979, which some considered evidence of a South African nuclear test. According to South Africa no test occurred and no radioactive fallout was recorded in the vicinity. This may add substance to the claim that the flash was induced by a micro meteorite hitting the satellite. Claims that South Africa's nuclear deterrent programme benefited from co-operation with Israel or any other state were also denied.

South Africa's explanation of

its deterrent strategy raises additional questions which remain unanswered. One is whether this account is a rationalisation after the event. Only hard evidence that the devices were not produced in weapon form and that there were no aspirations to advance to more sophisticated fission can dispel this possibility.

The second is whether the catalytic deterrence strategy would actually have worked if it had been implemented in the manner described. The end of the cold war may have eliminated the specific circumstances, although the idea of using nuclear proliferation as a bargaining tool to exert leverage over the nuclear weapon states probably persists.

Is this strategy also the rationale underpinning the activities of other states with ambiguous nuclear programmes, such as Israel, Pakistan, India and North Korea?

Programme for Promoting Nuclear Non-Proliferation, Mounibaten Centre for International Studies, University of Southampton, UK.

# Egyptian clampdown nets 800

By Roger Matthews, Middle East Editor

THE EGYPTIAN authorities have stepped up their battle with Islamic extremists, arresting more than 800 people in the past 10 days.

According to members of the security forces quoted by Reuters, the latest arrests are an attempt to smash a hitherto unknown group called the Vanguard of the New Holy Struggle.

The group is said to have been recruiting members in schools and universities, and advocates the full application of Islamic law.

President Hosni Mubarak has blamed Iran for sponsoring the wave of extremist attacks, which have badly damaged the tourism industry, and last month ruled out any possibility of a dialogue with radical Islamic factions.

Mr Mohammed Abdel-Moneim, the president's spokesman, said at the time: "The strategy is steady - to get rid of these people."

US officials have cast doubts on the extent of external involvement in Egyptian terrorism, while liberal, secular organisations in Cairo have warned Mr Mubarak against the dangers of pursuing a confrontational policy with groups in large part motivated by poor social and economic conditions.



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## NEWS: THE AMERICAS

# Clinton acts to head off revolt over cuts

By George Graham  
in Washington

PRESIDENT Bill Clinton met his party members in Congress yesterday in an effort to consolidate support for his economic programme and head off a brewing revolt among conservative and centrist Democrats looking for more spending cuts and fewer tax increases.

Mr Clinton has appeared rejuvenated by trips to Ohio, Illinois, New Mexico and California over the last 10 days to seek support for his economic package from the public. The latter, however, must wait three and a half years before they can vote for Mr Clinton again, while members of Congress have a more immediate opportunity to pass judgment.

The Democratic leadership appears unwilling to jeopardise the president's economic package by allowing party members to tinker with its components, but they also want to avoid provoking an all-out rebellion by ceding off dissent too fiercely.

Mr Clinton has so far succeeded in keeping his plan more or less intact, making some concessions on the proposed energy tax and abandoning his efforts for an invest-

ment tax credit, but preserving the main elements he sought, such as higher taxes on the rich and cuts in many spending programmes.

The work of the House of Representatives Ways and Means Committee on the tax measures will be married today with that of 12 other committees on the plan's spending components into a single reconciliation bill, but some conservative Democrats want to amend the plan when it is debated by the full House.

Perhaps 20 Democrats are thought unlikely to vote for any tax bill; it would only take another 20 opposed specifically to the energy tax, allied to the Republicans, to break the Democrats' 80-seat majority in the House.

"We need all the factions of the Democratic party to unite," said Mr Tom Foley, the Speaker of the House.

If the plan cannot be preserved in the House, it would have little chance of surviving in the Senate, where the Democrats have a much thinner and less disciplined majority.

Leaders of the conservative and centrist Democrats, such as Congressman Dave McCurdy of Oklahoma and Congressman Tim Penny of Minnesota, are pushing for a

measure to place ceilings on all entitlement spending, which includes medical and social security programmes.

They argue that this is essential if overall government spending is to be controlled, since entitlements now make up half the federal budget.

Critics complain, however, that across the board entitlement cuts would hurt the poor and needy. They also warn that the ceiling could preempt any savings from the reform of the health care system now being prepared by the White House, since medical entitlement programmes such as Medicare and Medicaid are the fastest growing elements in the budget.

Mr Clinton said after his meeting with the congressional Democrats that he was optimistic that his economic plan would pass, and would achieve much of the deficit reduction the conservatives want.

Mr McCurdy, however, said the president would have to compromise because there were not at the moment enough votes to pass the bill.

But other Democrats said the conservative rebels were seeking to cover their flanks with voters in their constituencies and would, in the end, fall in line.



Riot police in Guatemala City clashed yesterday with students throwing missiles as a protest against alleged official harassment

## Guatemala 'political killings go on'

POLITICAL killings are continuing in Guatemala despite the civilian government's pledge to end them, Amnesty International said yesterday, AP reports from London.

Opponents of the government of President Jorge Serrano Elias also have been tortured and some simply "disappeared," the London-based human rights group said in a report. "The government may have changed, but the violations go on."

Mr Serrano, who pledged to

protect human rights when he took office in January 1991, "has singularly failed to do so," it said.

Amnesty has documented "tens of thousands" of human rights violations in Guatemala during the past 20 years. It said the number of political killings by government forces has dropped - "but we have yet to see whether this will be a lasting improvement."

"The odds are against it. Harassment, intimidation and death threats are on the increase, violators from the

past are still walking free and the repressive structures are still in place."

A few human rights violators have been convicted, Amnesty said, and a presidential commission has been set up to coordinate human rights policy.

Victims include street children, human rights workers, journalists, indigenous peasants, academics and trade unionists, Amnesty said. Some have been killed by members of the security forces in uniform, others were murdered by "death squads" - military per-

sonnel in plain clothes so as to "disguise their guilt."

Yet others have been killed by civil patrols - civilian groups said to be volunteers but under military control.

Amnesty said the government has tried to cover its responsibility by claiming that victims were part of armed opposition groups. "These allegations are often made, with little or no evidence, against whole communities of indigenous peasants, for example, or against human rights workers."

## Brazil hedges democracy with money for military

By Christina Lamb  
in Rio de Janeiro

BRAZILIAN President Itamar Franco and the country's military chiefs issued a joint communiqué yesterday, warning that "democracy cannot be allowed to commit suicide".

This arose from a four-hour meeting to discuss dissatisfaction in the military over pay and conditions, as well as the country's worsening social problems and a recent surge of regional separatist threats.

The chiefs of the three armed services repeated demands for

the military to be put on the same pay scale as the legislature and the judiciary.

They claim that Brazil's military spending amounts to the equivalent of \$3 per head, compared to \$27 in Bolivia and \$17 in Argentina. The air force commander says that his service cannot even afford fuel for its aircraft.

Worried by increasing talk of agitation among the military, which prompted the meeting, Mr Franco had little choice but to accede, at least in part, to their demands. He seems to have promised a 97 per cent

wage increase (Brazil's inflation is at about 30 per cent a month) and funds to modernise equipment. The communiqué explained: "Democracy is a delicate plant requiring careful attention if it is not to wither."

It also stressed the role of the Brazilian armed forces: "Ethnic conflicts in Europe, disputes for control of strategic areas, and the formation of economic blocs mean that large countries such as Brazil, rich in natural resources, must make greater efforts to defend their territorial and political sovereignty."

## Sale of Latin American art disappoints

By Antony Thorncroft

LATIN American art has suddenly gone off the boil. After three years of rapidly increasing prices, the auctions in New York this week were disap-

pointing. On Tuesday, Sotheby's raised \$15m (£2.9m) from 79 lots but the auction was only 52 per cent sold by value.

There was one significant record, for a colonial painting. It depicts the Christmas Eve festivities in Mexico City in 1720 and is signed Arellano. It had been discovered recently in a house in England and

more than doubled its estimate, selling for \$37,500.

A painting depicting café society in Bogotá, "Cuatro Mujeres" by the Colombian artist Fernando Botero, was at the bottom of its estimate, realising \$717,500.

Sotheby's had more luck with its New York sale of the Alexander S. Honig collection

of African art. It totalled \$646,715 and was 93 per cent sold. A Fang male reliquary from Gabon fetched \$206,000.

Christie's tribal art sale on the same day fared less well, totalling \$825,212 but only 57 per cent sold. A Benin rectangular bronze plaque of about the year 1800 went below estimate for \$112,500.

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# Clinton's \$7bn dilemma on China

Linking human rights to trade could backfire, writes Nancy Dunne

DEMOCRATS in the US Congress used to enjoy watching former President George Bush squirm during his annual veto of legislation which linked US tariff levels on Chinese imports with the country's human rights behaviour.

Now it is President Bill Clinton's turn to feel the heat. As a candidate he indicated support for the Democrats in Congress. As president he must work that even conditional China trade linkage, under which the administration is required to certify annually that China has improved its human rights and arms sales record, would jeopardise up to \$7.5bn (\$4.9bn) to US exports this year.

This policy of non-discrimination in trade policy, the Most Favoured Nation treatment, provides to all trading partners the same customs and tariff arrangements.

The president has until June 3 to notify Congress whether he will renew China's MFN status. He could at the same time unilaterally impose some conditions on next year's renewal to head off legislation in Congress to impose even steeper requirements. Mr Warren Christopher, secretary of state, said China's reportedly coercive family planning programme and its alleged missile sales to Pakistan could be cited as a necessary improvement.

In the business community, the overwhelming sentiment is that morality is a luxury the US can rarely indulge in these days of persistently high unemployment - particularly when the price of linking US tariff rates with China's human rights record gets higher every year.

The voluntary Levi Strauss withdrawal from China is not seen as the beginning of a trend. In fact, a new report by the International Business and Economic Research Corporation, which is funded by business, frets that removal of MFN or conditionality would provoke Chinese retaliation and risk up to 171,000 US jobs in 1993.

Hardest hit immediately would be US exports of aircraft, fertiliser, wheat and telecommunications.



Mitchell, left, and Clinton: pursuing Democratic goals tempered by presidential responsibilities

joint venture to provide auditing, accounting, tax and consulting services; Gallup Group, a joint venture to conduct market research; General Electric, with Chinese partners and others to build a communications satellite; Singer, construction of a sewing machine company with annual production of 400,000 units; and Westinghouse Electronics and Digital Equipment, an agreement with Shanghai No 1 Iron and Steel Plant to develop automation techniques.

MFN legislation, introduced by the Senate majority leader George Mitchell, would differentiate between products produced by private enterprises (now about half US imports from China) and those made in state ventures, which would be subject to the same high tariffs as Afghanistan, Cambodia, Cuba, Laos, Montenegro, North Korea, Serbia and Vietnam.

Under the legislation, China would be required to step up releases of political prisoners and improve its record on religious persecutions, unfair trade practices, and exports of missiles and other arms exports to regimes that have not signed up to multilateral controls.

The \$7bn US trade deficit with China is less of an issue in the MFN debate this year. Congressman Lee Hamilton, chairman of the House foreign affairs committee, recently acknowledged that "fair minded people recognise that increased imports from China reflect the relocation of production from other Asian exporters, including Taiwan and Hong Kong".

Furthermore, China's imports are likely to mushroom to supply a growing demand for raw materials, capital equipment and technology.

Mr Winston Lord, the assistant US secretary of state, last week apparently made little headway in urging China to make new commitments on human rights and weapons proliferation.

The administration is expected to wait as long as possible before the June 3 deadline, in the hope that the pressure will produce Chinese concessions.

ITEM	1992 Chinese Imports (million \$)	Share of US market			Price change			Change in Chinese Imports (million \$)	Increased Cost of Purchases (million \$)
		China	Domestic	Other	China	Domestic	Other	Average	
Plastic footwear	990.5	57.4%	24.8%	17.8%	+20.6%	+6.7%	+6.1%	+10.8%	-322.8
Non-cotton textiles	789.1	55.0	22.0	23.0	+38.2	+10.2	+4.2	+15.4	-487.4
Men's toys	644.8	48.0	27.8	22.4	+44.4	+8.7	+7.8	+11.0	-520.9
Women's leather footwear	628.1	18.5	24.8	56.7	+4.8	+0.8	+4.5	+1.5	-102.7
Shuffled toys	483.0	57.4	14.1	28.5	+44.4	+12.3	+11.5	+18.0	-347.4
Crude Oil	467.8	0.7	55.0	44.3	+0.5	0	0	0	-10.5
Women's silk blouses	442.3	36.4	52.2	11.4	+40.1	+8.2	+5.1	+7.8	-388.1
Men's leather footwear	341.6	20.7	24.8	54.5	+8.0	+0.7	+0.7	+1.8	-66.3
Artificial flowers	338.1	72.8	10.0	17.4	+43.0	+14.0	+13.4	+22.4	-188.6
Non-shuffled toys	318.7	54.0	27.8	18.4	+44.4	+11.8	+10.4	+14.0	-234.0
Total	8,722.2	-	-	-	-	-	-	-	-4,288.3
									1,513.8

Source: International Business and Economic Research Corporation

In the report's worst case scenario Boeing, McDonnell Douglas and their suppliers would suffer the greatest harm. They have 76 per cent of China's aerospace market. Boeing could lose \$5bn in sales. McDonnell Douglas has been selected for co-production of a "trunk aircraft" which calls for firm orders for 40 aircraft, valued at about \$1bn, and it is discussing assembly of 105-seater aircraft in Shanghai.

China is the largest market for US fertiliser - exports last year were \$620m - and it is usually the largest or second largest importer of US wheat. Billions of dollars will be at stake as China modernises its telecommunications market, where AT&T is already a leading participant.

Former senator Adlai Stevenson, an Illinois Democrat and son of the country's late United Nations ambassador, is one of many in business hoping conditional MFN can be avoided. As head of a US-Chinese joint venture to design, build and operate commercial telecommunications systems in China, Mr Stevenson is all too aware of what is at risk.

The joint venture - the China America Telecommunication Company - has a contract to build a \$20m prototype. US sanctions ultimately could cost the group participation in China's \$20m telecommunications equipment market.

Yet projects like these which link the Chinese people with the outside world are important to improvement of human rights, Mr Stevenson argues. "Political liberalisation is hap-

pening already, although it is hard to quantify, and it will continue to happen as ideas and information cross borders."

US investment in China has been limited until recently to production ventures. But investment has expanded in services, with US accounting, computer software, consulting, financial insurance and marketing firms establishing a foothold from which the newcomers are expected to leap into the China market.

Since August 1992 the following investments are among the dozens which have been announced: American International Group, forming a wholly-owned insurance company in Shanghai; Connor Peripherals to manufacture hard disk drives; Coopers & Lybrand, a

## Coface hit by strong franc

By David Buchan in Paris

ECONOMIC recession and currency devaluations against the franc have made an increasing number of French exporters' clients unable to pay their bills. France's export credit agency, Coface, has warned.

In an interview in Le Figaro yesterday, Mr Alain Paupert, the Coface director responsible for short-term risk cover, said the premiums his agency charge French exporters for insuring payment of their goods "will no longer" cover the bad debt claims on it.

Coface paid out FF400m (\$48m) in 1992, a year which saw 210,000 European companies go bust, with the bankruptcy rate rising by 50 per cent over two years. In normal times, had debt claims on Coface amount to about 1 per cent of the total export business it insures, but this rose to 1.8 per cent in the second half of last year.

Spain has apparently become the riskiest destination for French exports, with bad debt claims amounting to 3.8 per cent of Coface-insured business there. But Mr Paupert said that.

French companies pay an average of 0.43 per cent of total export turnover to get Coface cover, with the range of charges varying between 0.3 and 0.9 per cent. The agency says it may raise the top level on a case by case basis but is urging French exporters to redouble the care with which they choose clients.

Prime Minister Edouard Balladur will brief the Commission in Brussels on June 3 on France's views about the need to broaden the Uruguay Round negotiations to take in all issues with all Gatt participants, not just focus on agricultural trade with the US.

The EC executive does not usually expose itself to direct lobbying from a single EC leader, and the move underlines the determination of Brussels and Paris to bring the Gatt issue to a head.



Lacalle: integration step-by-step is best

## Uruguay sees regional trend for Americas

Stephen Fidler interviews the president

A FREE trade zone made up of the entire American continent is too ambitious an objective, and governments in the western hemisphere should concentrate instead on developing their own regional groupings, according to President Luis Alberto Lacalle of Uruguay.

"We should approach this step-by-step. I think the integration movement mustn't go to the top at the beginning, from Alaska to Tierra del Fuego. No, nonsense," he said in an interview.

Instead, the first stage should be groups of countries getting together, as Uruguay is doing with its partners in Mercosur - Argentina, Brazil and Paraguay. "Mercosur is made real by geography. It is like a tree whose trunk is the River Plate and whose roots are in the Atlantic Ocean."

"That's why Mercosur makes sense and why the accession of Bolivia is reasonable. We are a mass of countries bound together. It's the same for Mexico, Canada and the US," he said.

Making Mercosur work was "very difficult, so the idea for this generation, and perhaps for another one, is to try to make these things work."

Mr Lacalle's remarks were in response to a question about the possibility of Argentina

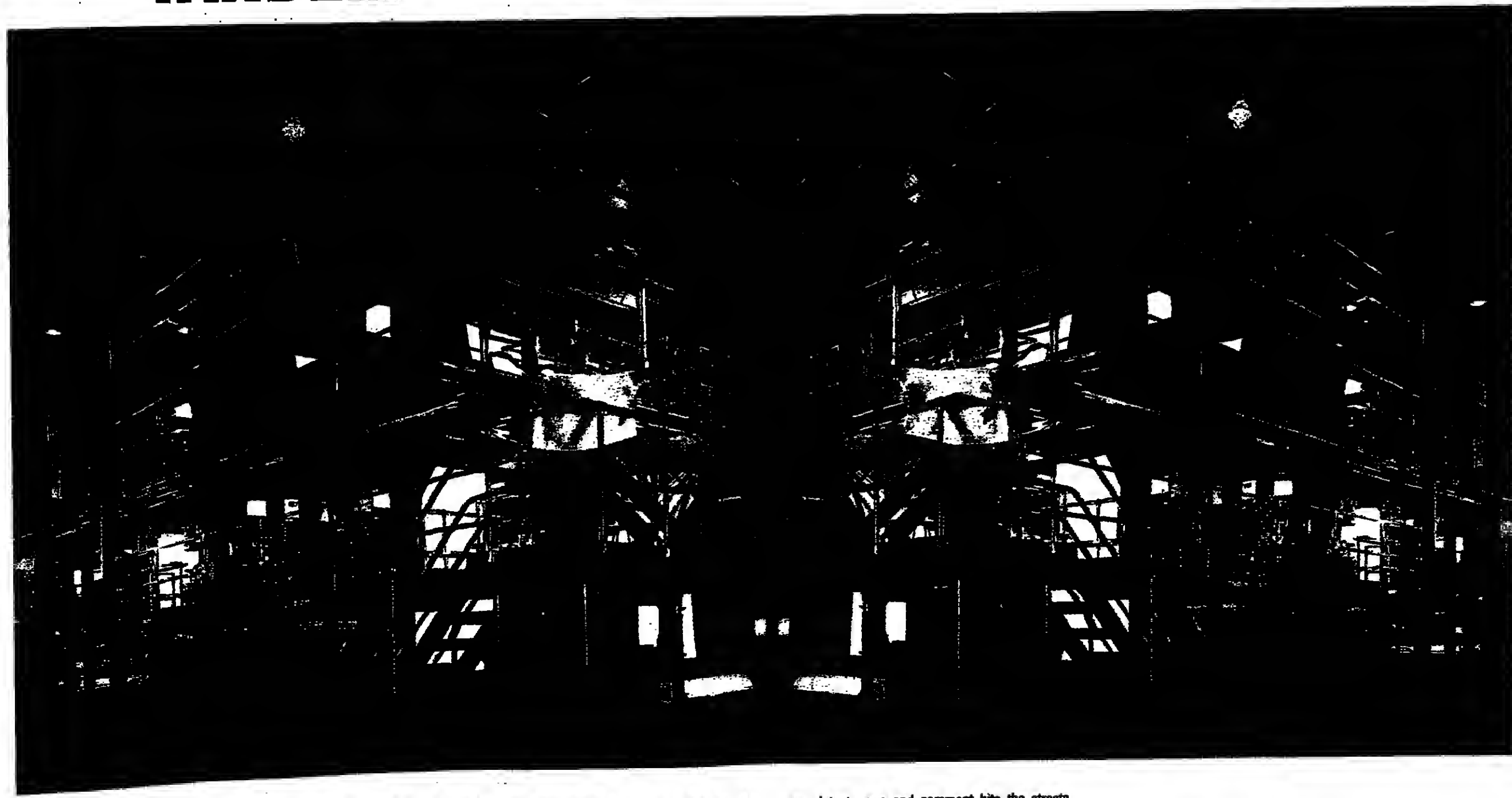
being able to join the North American Free Trade Agreement of Mexico, Canada and the US. Washington has said that three South American countries - Chile, Argentina and Venezuela - would be candidates for accession to Nafta. But Mr Lacalle pointed out: "Nafta is not a reality yet - and that's a big if."

He said an important part of Bolivia looked to the Atlantic so it made sense for the landlocked country to join Mercosur. However, Bolivia is prevented by the Mercosur treaty from joining because it is a member of another trade organisation, the Andean Pact. Mr Lacalle said: "We are trying to provide the possibility. It needs the agreement of the four [member] countries."

The president conceded that, when the common external tariff comes into effect on January 1 1995, "perhaps we won't have a perfect common market" and there would be "some exceptions to the common external tariff". However, for most goods, the common external tariff would be about 20 per cent and there would be no internal tariffs.

He said he hoped Montevideo, the Uruguayan capital, would become the permanent home for Mercosur's administrative secretariat.

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## NEWS: UK

# Falling retail sales expose frailty of UK recovery

By Emma Tucker,  
Economics Staff

THE FRAGILE state of Britain's economic upturn was yesterday exposed by an unexpected decline in retail sales, which last month fell for the first time since the beginning of the year.

The figures follow poor manufacturing output figures earlier this week, and although analysts warned not to read too much into one month's figures, they are the first sign that the recovery might not be on an uninterrupted upward path.

The Central Statistical Office said yesterday that retail sales volumes

fell a seasonally adjusted 0.3 per cent last month, compared with March. However, sales were still up strongly in the latest three months, a measure which the government and independent economists take as a better guide to recent trends.

In the three months to April, sales volumes rose by 1.4 per cent and were 3.2 per cent higher than in the same period a year earlier. Compared with the same month a year ago, sales in April were 2.4 per cent higher compared with growth of 4 per cent in the year to March.

Economists generally expect the recovery in the UK to be bumpy, following the experience of the US

suffering from similar private sector debt problems - where economic indicators have painted a conflicting picture in recent weeks.

Concern over the economy was raised further yesterday when it emerged that the government needed to borrow £4.89bn last month to finance public spending. This highlights the prospect of high deficits later in the year as a result of the economic slowdown.

The high level of borrowing for April - which was up 34 per cent from the £3.49bn figure for the corresponding month last year - came about after allowing for higher than expected privatisation proceeds of

£1.4bn. Of the total borrowing requirement, central government needed to find £3.25bn last month to cover the gap between spending and revenues. Local authorities borrowed £963m while public corporations took on an extra £36m of debt.

The weakness of April's retail figures was concentrated in food retailers and mixed businesses, mainly department stores. Sales in both sectors fell, while non-food retailers sales were flat.

Over the three months to April growth was concentrated in the non-food sector. Sales rose by 2.7 per cent compared with the previous three months. Food retailers, whose sales

held up relatively well during the recession, have not fared so well since the beginning of the year.

One reason for caution about the growth of sales is that heavy discounting, which helped to underpin retail sales, appears to be coming to an end.

The Society of Business Economists also warns today that sluggish growth of real incomes is likely to hold back consumer spending.

The Treasury stressed that it was dangerous to read too much into one month's figures and pointed to the steady upward trend in retail sales.

Mr Gordon Brown, the opposition Labour party's chief finance spokes-

man, said: "It is quite clear from today's retail sales figures and yesterday's fall in manufacturing output that far more will have to be done to ensure a sustainable recovery."

Labour also claimed that Britain has been running a deficit on its trade in manufactured goods for more than a decade.

Launching a concerted attack on the government's manufacturing record, trade spokesman Mr Robin Cook asked how long it would be until the country got back to the surplus which existed, he said, every year before the Conservatives were elected.

## Losses in Europe force Ford to revise R&D plan

By Kevin Done,  
Motor Industry Correspondent

FORD's continuing losses in Europe have forced the US vehicle maker to revise its ambitious plan for restructuring its European research and development operations.

It is reducing the number of jobs to be transferred from the UK to Germany and has decided to keep open its Aveley engineering site in Essex, formerly earmarked for closure.

Ford announced a year ago that it planned to consolidate its design and production engineering operations in the UK and Germany at two sites at Duntun, near London, and at Merkenich, near Cologne.

Ford said yesterday, however, that it had reviewed the plan "to ensure that every element of proposed expenditure is absolutely justified in the light of our present business situation".

Ford's European automotive operations, including Jaguar, made a record loss last year of \$1.3bn compared with a loss of \$1.07bn in 1991.

The European operations are being drastically restructured with the loss of about 10,000 jobs in Ford of Europe (excluding Jaguar) announced late last year.

Ford admitted this week that "as economic conditions have developed, it is increasingly unlikely that the company's European operations will return to profitability in 1993". The company had previously been more sanguine about its

prospects for this year.

It has decided to maintain its pilot plant and manufacturing and process engineering workshop facilities at Aveley.

The "likely benefits" of consolidating the operation at Duntun were "outweighed by the substantial costs involved," the company said.

Under the revised plan for reorganising the research and development operations, the number of jobs to be transferred from the UK to Germany has been reduced to 226 from 309 a year ago.

The jobs are chiefly in chassis engineering with the remainder coming from the body engineering and transmission operations staffs.

The number of jobs being moved from Germany to the UK, in instrument panel engineering, has been cut to 22 from 25.

Within the UK, Ford said yesterday that a total of 776 jobs would now be moved to the Duntun technical centre from other sites in Essex: Aveley (346), Dagenham (172) and Basildon (258). About 400 jobs will now remain at Aveley.

Ford insisted yesterday that the scaling back of the R&D restructuring had not compromised its fundamental aim of locating its design and manufacturing engineering staffs at only two sites in the UK and Germany.

The decisions aimed to improve the efficiency of the engineering operations by the increasing introduction of simultaneous engineering.

## Employers fear social costs will hit EC trade

By Michael Cassell,  
Business Correspondent

THE EUROPEAN community has lost one-fifth of its share of world trade since 1980 and will lose more unless productivity improves and social costs on employers are contained, the Confederation of British Industry warned yesterday.

"The UK employers' organisation called on the EC to 'rethink its commitment to the social chapter and to avoid

directives which will further reduce competitiveness".

Mr Howard Davies, CBI director general, Mr Davies said that employers across the community were united in their opposition to the additional cost burden implied in the chapter's social action programme.

Implementation of the programme would mean a further reduction in competitiveness and more job losses, he said.

Mr Davies was speaking as

the CBI urged the government to construct an industrial strategy based on strengthening the supply side of the economy to achieve sustainable economic growth.

Although encouraged by recent ministerial language backing manufacturing industry, the CBI still believes the government has still failed to articulate a clear, industrial strategy.

The employers' organisation has begun work on a policy

document intended to define its view of the government's proper role in improving Britain's competitiveness. It will also set out what the CBI believes to be the acceptable limits of state involvement in supporting industry.

The CBI is anxious to discourage any suggestion of old-style, state intervention but believes the government must make its central objective the adoption of policies intended to help UK companies compete

more successfully. Business leaders complain that competitors in other European countries receive far more state assistance from government in winning vital orders.

Mr Davies said the government's prime responsibility was to provide a stable economic framework for business. But, beyond that, it had to implement policies which would raise the trend growth rate in the UK economy.



Police statement: Kenneth Clarke, home secretary, told the Police Federation yesterday there needs to be structural reform of the service. Despite force opposition, Mr Clarke has started restructuring police authorities to make them smaller businesslike bodies

## Minister 'unable to' influence arms sales

By Jimmy Burns

A FORMER cabinet minister indicated yesterday that he may have been unable to influence key decisions of the British government affecting the sale of defence equipment to Iraq and Iran for which his department had statutory responsibility.

Mr Paul Channon, former trade and industry secretary, told the arms-for-Iraq inquiry that during his period in office from 1986-87, the Foreign Office and the Ministry of Defence were interpreting government guidelines in a way he had not envisaged.

The guidelines first agreed in December 1984 were intended to restrict defence exports which could enhance military capabilities and prolong or exacerbate the Iran-Iraq war.

But Mr Channon highlighted one case in which the export of hovercrafts to Iran had been blocked not, in his view, on the basis of military criteria, but because Mrs Thatcher, then prime minister, had not wanted to alienate other Arab countries.

"I think [the MoD and the Foreign Office] were changing the rules as they went along. Although it was government policy, it was jolly irritating," he said.

Documents made available to the inquiry confirm that by 1986, Mr Alan Clark, then serving under Mr Channon as trade minister, and other officials were arguing strongly for a relaxation of the guidelines.

But when questioned about some of them, Mr Channon said he had no record of them being circulated to him.

One document which the former secretary of state could not recall seeing before yesterday was a minute written by Mr Clark to Mrs Thatcher on November 24 1986 urging a relaxation of the guidelines.

Government papers released following the Matrix-Churchill trial - which ended with the acquittal of executives accused of illegal exports to Iraq - suggest that by 1986, with Mr Clark still in his post but not in inter-departmental power away from the Foreign Office in favour of the DTI, the hearings continue on Monday.

## Study finds engineering in UK lags behind Dutch

By Robert Taylor,  
Labour Correspondent

LABOUR productivity in British engineering companies is 25 to 30 per cent lower than in their Dutch counterparts, according to a study by Britain's National Institute of Economic and Social Research.

Proportionately, however, more initial training is now carried out by British companies than in the Netherlands. These are the main findings of a comparative study into productivity, machinery and skills in British and Dutch engineering companies.

The main reason for the continuing productivity 'gap' says the report is widespread provision of full-time vocational education and training in the Netherlands, which allows companies to carry out subsequent training among employees more cost effectively than is possible in Britain.

The study also points to the slower UK investment in capital equipment such as computer-controlled machinery and "lower average levels of workforce skills and knowledge."

"The relatively high standards of students from the age of 13 onwards at junior and intermediate technical schools in Holland give Dutch employers a considerable 'head start' over their British counterparts in terms of the 'train-ability' of their workforce."

It points out that relatively high wage levels in the Netherlands also provide sharp incentives to employers to seek the high levels of workforce skill and productivity required to succeed in manufacturing.

But the study also says British engineering employers are no longer "complacent" in the face of international competitive pressures and points out that many improved their productivity during the 1980s and shifted production into higher value product areas and away from mass production of standardised goods.

The research used in the study was based on visits to 12 British and nine Dutch engineering plants in 1991-92.

## Aerospace industry damaged by cuts, MPs told

By Daniel Green

CUTS in government spending on defence research and development are damaging Britain's international competitiveness in civil and military aerospace, a committee of MPs was told yesterday.

Mr Alan Jones, chief execu-

tive of helicopter-maker Westland, warned the Commons Trade and Industry Committee that the government's £35m programme for civil aircraft research and development, was just 25 per cent of what was needed to compensate for defence spending cuts.

Funding to help improve

helicopter gearboxes, an essential part of helicopter upgrades, had been cut from £3m a year to £0.5m since the mid-1980s.

"We are not getting as much assistance as our [overseas] competitors," he told the committee.

Mr Jonathan Aitken, the

defence procurement minister, earlier said that the Ministry of Defence was spending £2.6bn on research and development and that there was a good relationship with the DTI. He said the impact on jobs and other social factors were taken into account by ministers when awarding contracts.

But if a contract with domestic manufacturers cost more than imported alternatives, he would argue strongly in cabinet to split such costs.

He said that the European Fighter Aircraft project was a leading example of how governments and industry could work together successfully.

## Nissan denies it was behind alleged tax fraud in Britain

By John Mason,  
Law Courts Correspondent

AN EXECUTIVE of Nissan, the Japanese car maker, yesterday denied that his company was behind the alleged tax fraud involving Nissan UK, the former car importer.

Mr Masayuki Sakagami, managing director of Nissan Motor Corporation, said the Japanese company's freight subsidiary, was giving evidence at the Old Bailey trial of Mr Michael Hunt, the Nissan UK director, who denies conspiring to cheat the Inland Revenue of £27m in corporate

tax. Mr Sakagami denied knowing of the role played in the alleged fraud by Mr Friedrich Pannosch, an Austrian rail consultant. He is alleged to have opened a Swiss bank account into which about \$300m in freight charges, allegedly diverted from Nissan UK, were paid.

When Mr Sakagami and two other senior Nissan executives met Mr Pannosch in Vienna for a weekend in early 1990, their purpose was simply to be taken for a sightseeing tour - not to "check out" Mr Pannosch because they knew he had opened the account, he

told Mr Michael Sherrard QC, for Mr Hunt.

He denied earlier evidence by Mr Pannosch that the Nissan executives' trip had not been a cultural tour of the city and that they had spent 20 hours a day pumping the Austrian with endless questions about his business.

Throughout the weekend, the Nissan executives had only asked questions about Austrian history and painting, he said. He had been so tired that, as Mr Pannosch drove them round the city, he had often fallen asleep, he said.

The trial continues today.

## Leading cargo company trains substitute workers

A SUBSTITUTE labour force has been trained to take over at Southampton Container Terminals, Britain's second biggest cargo-handling company, in the event of a strike over cost cutting, the Transport and General Workers Union claimed yesterday, Robert Taylor writes.

The company has told the union that it intends to make a third of its 500-strong workforce redundant and introduce contract casual labour.

The union claims up to 80 substitute workers have been trained by Bahamas-based Drake International and are being paid £175 a week on

three month contracts to stand by at home in Southampton.

Mr Denis Harryman, a union official in Southampton said Mr Bruce Dawes, the company's managing director had told him the substitute workforce was an "insurance" for Southampton Terminal Containers, whose main shareholders are Associated British Ports and P&O.

The company yesterday refused to comment on the allegations but said in a statement overcapacity and the need for cost savings required "more flexible working and increased productivity but at significantly lower cost".

## Government contemplates life after Maastricht

Philip Stephens assesses the impact of the Danish vote on the Tories

THERE IS life after Maastricht. Denmark's endorsement of the treaty has provided the occasion for predictably jubilant talk among UK ministers about lines now drawn under a dismal past, the promise of new beginnings. They half believe it. They will be more convinced when they can see also life after the expected cabinet reshuffle.

With the bulk of the opposition Labour party abstaining, the government is promised a comfortable majority when the third reading of the Maastricht bill wraps up its tortuous progress through the House of Commons today.

In spite of the promised thunder in Britain's upper chamber, the House of Lords, from Lady Thatcher and Lord Tebbit, the finishing post is now in clear view. The court cases threatened by the Eurosceptics may prove more of a nuisance than the government will admit. So too might action in the European Court to challenge the validity of Britain's opt-out from the social chapter.

But barring unexpected accidents - an essential caveat when writing about the present government - by the end of July Britain should have caught up once again with its European partners and ratified the treaty.

The split in the Tory party over Europe will not go away. The arch-Eurosceptics have detached themselves from the Conservative mainstream. Sterling's exit from the European exchange rate mechanism means that the destructive choice between the slow and fast lines of European integration has been deferred not removed.

The DM/Franc link has sur-

vived everything the speculators have thrown at it. It provides the basis for a monetary union among the Community's core countries. Mr Major underlined yesterday there is no prospect in the medium term of the pound's return to the system. Those officials who remember the sterling crises which punctuated life before the ERM understand the risks of remaining outside.

The prime minister has more immediate problems. His own authority has been much diminished. His cabinet is deeply unsettled. His supporters are ready to be tipped into panic again by the threat - albeit at this stage slim - of defeat in the forthcoming Parliamentary by-election in the Christchurch constituency.

The official line - that Mr Major is determined not be

pushed into a reshuffle by the media - is either disingenuous or deeply misguided.

It is true that some national newspaper editors would be happy to claim the scalp of Mr Norman Lamont. The chancellor of the exchequer's sometimes aloof manner and his habit of writing nasty letters of complaint have left him few friends in the press.

But this time the pressure from the media underestimates the maneuvering in the cabinet. If Mr Major decides against changes he will be ignoring the advice not of a majority of his colleagues. It must be assumed that Mr Norman Fowler, the party chairman, has told him so.

It is not a question of malice. Mr Lamont has been a shrewd chancellor than his public image allows. But in the words

of a colleague, he has been at the scene of too many accidents.

Mr Lamont does not want to go. He sees no reason why he should be the scapegoat for the recession or for Maastricht. There are dark rumours that Mr Major's own role in last September's ERM debacle would not bear the scrutiny of Mr Lamont's memoirs.

The uncertainty is damaging the cabinet. Ministers are jostling for position in case Mr Major opts for wholesale changes.

Mr Kenneth Clarke, home secretary, has emerged alongside foreign secretary Mr Douglas Hurd as an independent force in the government. But the home secretary's habit of re-interpreting economic policy during early morning chats has enraged Mr Lamont.

Mr Hurd is accused - unfairly - in Westminster of plotting against the chancellor while his protégé Mr Clarke bids for his job in the media.

Other relationships risk being soured by constant gossip speculation about who is on the way up and who might be on the way out. Mrs Virginia Bottomley's trouble-free year at the department of health has caused resentment against among less fortunate colleagues.

The right is asserting the candidacy of environment secretary Mr Michael Howard as chancellor.

Others, like Mr John Patten at Education have been unsettled by the inclusion of their names alongside that of Mr Lamont on reshuffle "hit-lists". The discord ripples down through the middle and junior ranks of the government. It cannot make for good government.

## Britain in brief



## Labour party leader backs referendum

Mr John Smith, the opposition Labour leader, came down against a change in the way MPs are elected, but said a referendum on elections to the House of Commons should be a manifesto commitment at the next general election.

In a separate move, he reduced the prospect of a confrontation with the trade unions over their links with the party, by proposing that individual union members should receive full party membership for a reduced rate.

Mr Smith's comments contained comfort both for reformers, who believe the referendum will keep up momentum for change, and for those who want to keep the first-past-the-post system.

## Treasury to cut dental care

The UK Treasury is pressing for effective withdrawal of the National Health Service from dental care and the scrapping of free prescriptions for all but the poor in its fundamental review of public spending.

The proposals - under consideration by a government Whitehall committee set up by Mrs Virginia Bottomley, the health secretary - foreshadow a fierce battle during the next few months as ministers prepare the government's spending plans for 1994-95 and beyond.

## Guildford Four police acquitted

Three former police detectives accused of manufacturing notes of interviews with one of the Guildford Four - the alleged IRA bombers whose convictions were quashed in 1989 after they served 14 years in jail - have been acquitted of conspiracy to pervert the course of justice.

The three men, ex-Detective Chief Inspector Thomas Style, 59, ex-Detective Sergeant John Donaldson, 57, and former Detective Constable Vernon Atwell, 52, were accused by the prosecution of lying on oath that notes of interviews with Patrick Armstrong were contemporaneous when they had been compiled later from rough notes.

In the interviews Mr Armstrong confessed to planting a bomb in the Horse and Groom pub, Guildford in October 1974, in which five people died and more than 50 were injured.

Their convictions were quashed by the Appeal Court in October 1989 after hearing how investigating police officers had altered notes of interviews, suppressed significant material and given false evidence at their trial. The acquittal of the three former officers provoked an immediate outcry from the Guildford Four and their lawyers.

## Recession hits travel costs

The recession has forced two-thirds of small UK businesses to cut the cost of employee travel to Germany, according to research by Equator, a market research subsidiary of Saatchi & Saatchi.

Mr John Boulding, managing director of GTF Tours, the UK-based company which commissioned the research, said 80 per cent of the 100 businesses surveyed now used three-star hotels. Mr Boulding, whose company specialises in travel to Germany, said two-thirds of the companies, whose turnover ranged from £300,000 to £13m, relied on cheap fares, including charter flights, when managers flew to Germany.

## Awards for FT

Financial Times journalists yesterday won two of the top honours in the British Press Awards. Reporting Team of the Year went to the Maxwell Investigation team of Brownwyn Madoc, Jimmy Burns, Raymond Snoddy, Andrew Jack, Norma Cohen, Hugh Carnegie, Ian Ridger, Leyla Boulton, Alan Friedman, Richard Courlay and Robert Peston.

The judges said the newspaper's reporting of the Maxwell story was "a blistering worldwide effort which will remain the definitive newspaper investigation". Raymond Snoddy also won The Chairman's Award: being described as "a consummate professional...his stories move share prices and shatter boardrooms".

مكرا من الاصيل



# MANAGEMENT: MARKETING AND ADVERTISING

## Power of private labels

In public, many manufacturers of branded products still treat retailers' private-label rivals with disdain. Yet, in the UK at least, private-label production has become so big a business that few companies can afford to turn up their noses.

A recent survey by Concept International, a branding consultancy, of 200 UK-based consumer goods producers - half of them in the food and drink industry - finds that fewer than a fifth derive less than 10 per cent of their total revenues from private-label manufacturing.

Forty-four per cent of the companies said the business provided at least 40 per cent of their revenues. Fifty-eight per cent said it was a bigger share of their total sales than five years ago. The main reason for private-label manufacturing, mentioned by 30 per cent of companies, is to provide greater security for continuing sales revenue, while 27 per cent cited the opportunity to cover fixed costs.

The companies divided almost equally between those for which private-label business consisted of producing cheaper copies of branded products or basic products at the lowest possible price and those which aimed to make unique products.

The survey underlines how far private-label business gives retailers the whip hand in marketing decisions which manufacturers of branded products have traditionally controlled. It finds retailers are more important than manufacturers in controlling retail prices, advertising and promotion, packaging and design and the size of product ranges. Manufacturers still wield more control than retailers in the areas of distribution, delivery and product programming.

Three-quarters of private-label manufacturers said their most important market was the UK. But 18 per cent said it was western Europe - which 48 per cent named as their second most important market.

**Guy de Jonquieres**  
Concept International, River-view House, London W6 9AR. Tel: 081-748 7874

Crossing borders has become second nature for many businesses, but not for retailers. Companies that have exported a successful retailing formula are few, while the list of failures, including the UK's Marks & Spencer in Canada and France's Printemps in Japan, is depressingly long.

Now, a new generation of retailers is trying again. Last December, Tesco of the UK bought the 92-store Cadeau chain of supermarkets in northern France. Two months later, Kingfisher, the UK retailing group, acquired Darty, France's largest electrical retailer. Ahold of the Netherlands, Aldi and Tengelmann of Germany, and Promodes and Carrefour of France are among those which have built up the proportion of their sales in other European markets to more than 30 per cent.

The latest to join this trend is Migros, one of Europe's most powerful retailers, but up to now active only in Switzerland. A federation of 12 co-operative societies, the company is building supermarkets in France and Germany and is committed to taking a leading position in the Austrian grocery market.

Its progress will be watched closely by other European retailers, after its large success in Switzerland, where it has 23 per cent of the food market. It buys more than 20 per cent of Switzerland's annual agricultural production and, in line with its founder Gottlieb Dittli, its policy of reducing prices by cutting out the middleman, it manufactures about a third of what it sells in its own factories.

Moreover, its method of expansion may prove a model. Having carefully studied the failures of others, Migros believes the key to success, in food retailing at least, is to stick at first to the regions around one's home base. It also decided not to open its own stores in Austria, but rather to form joint ventures with existing local retailers.

Eugen Hunziker, president of the Migros federation, acknowledges the biggest mistake most retailers have made in cross-border ventures has been underestimating the differences from their home market. Successful retailing involves delivering the right goods and services to the local customer. But differing tastes, cultures and climate mean the demands of customers vary considerably in different parts of Europe.

Moreover, different legislation in areas, such as opening hours, planning restrictions, VAT and minimum wages, can make operating conditions very different in foreign markets.

Even within the US where there are no significant linguistic or cultural borders, national retailers, such as Safeway and A&P, have

Neil Buckley and Ian Rodger look at the European expansion of Swiss retailer Migros

## Sticking to the border

Cross-border retailer-to-retailer acquisitions in EC



been unable to keep pace with regional specialists, argues Hunziker.

The challenge, he says, is defining which regions belong together. Switzerland, for example, has three cultures clearly separated from one another. Yet Migros succeeds in all, by carefully targeting its products and offering them at aggressive prices.

Migros management knows its supermarkets are appreciated beyond Switzerland's borders. German, Italian, French and Austrian consumers regularly cross the border to shop in its stores.

Besides awareness of the potential pitfalls, Migros' cumbersome democratic decision-making process within the co-operatives had previously acted as a brake on cross-border expansion.

But the pressure has now become irresistible. The group has limited potential for growth at home and needs more outlets for its manufactured products, including confectionery, pasta and hygiene products, if it is to remain competitive.

With the creation of a single market in the European Community it

looked as if expansion into neighbouring countries could be approached gradually and painlessly. Migros first dipped its toe in the water last year, launching two supermarket projects in the French suburbs of Geneva and another in a German suburb of Basel.

Then in December a majority of Swiss voted against joining the European Economic Area (EEA), an expanded free-trade zone with the EC. That meant that exporting from Switzerland would continue to be difficult and the group would need a secure base somewhere within the EEA. The obvious solution was to go to Austria. Austria will be a member of the EEA as well as having easy trade relations with Switzerland through the European Free Trade Association.

In March, Migros made a series of deals that would give it access to about a quarter of the Austrian grocery market at a cost estimated by outside analysts at more than SF200m (£88.4m). It acquired the chain of 112 Famila supermarkets based mainly in the western Austrian province of Vorarlberg from the Zornbol group. It then formed two joint ventures with Konsum, Austria's largest supermarket chain.

One venture, in which Migros will have a 75 per cent controlling interest, will manage the Famila supermarkets and Konsum supermarkets in Vorarlberg. It will have estimated sales of SF200m and employ around 1,500 people. The other, in which Migros has only a 25 per cent stake, brings together 78 Konsum supermarkets throughout Austria and the Famila shops outside of Vorarlberg. It would have annual sales of Sch12bn (£690m) and employ around 4,000 people.

Even expanding reasonably close to home, though, can lead to complications. News of the joint ventures provoked an outcry from Austrian trade unions, which claimed Migros' policy of manufacturing so much of its own goods would mean the loss of thousands of jobs in Austrian manufacturing.

Hunziker dismisses the idea that Migros is going to divert Konsum and Famila's existing supply and distribution networks to its Swiss sources, although it is analysing the Austrian stores in detail to see which of its own products it can sell, and how it can best take advantage of its international procurement potential.

"We didn't go into Austria on our own, but looked for co-operation. We can't transfer Migros philosophy and policy wholesale. The Austrians will tell us what we can and cannot do," he says. With that type of attitude, Migros may stand a better chance than some of its precursors of making a success of its cross-border ventures.

## River-to-river saleswomen

Avon is selling its cosmetics in the Amazon, writes Christina Lamb

Sending bands of women in kayaks down the tributaries of the Amazon to sell lipstick and face creams to remote communities would seem to be taking the concept of direct sales to the extreme. Particularly if the communities do not use money and can pay only with barter goods such as fruits, eggs, wood or nuggets of gold.

Yet this is one of the creative methods used by the Brazilian subsidiary of Avon, the US cosmetics giant, to make its products available throughout the country's vast hinterlands and to maintain sales over the past three years of recession.

As a result, Avon has become one of the few Brazilian companies to see sales rocket as per capita income has dropped 10 per cent.

Ademar Serodio, president of Avon Brazil, explains: "Research showed us that, even in a crisis, there is always consumption."

"Our problem was to make people who had less money consume more."

His plan to widen the sales net did not convince his head office, nor, indeed, some of his employees. They believed cosmetics sales would be among the first products to suffer in a deep recession and the company should adjust to a smaller market.

After a six-month struggle, Serodio's masters caved in, agreeing in March 1991 to boost the sales force by 50 per cent and launch a series of new products. The decision was a success, turning the Brazil operation into one of the company's most profitable worldwide and the largest cosmetics company in Latin America.

Sales rose from 180m units in 1990 to 220m last year. This year, revenues are expected to reach \$480m (£317.6m), against \$350m in 1990. The workforce has increased 10 per cent and the factory is operating at full steam, compared with an idle capacity average for Brazilian industry of 30 per cent.

To achieve this, and increase the sales force, Serodio boosted the number of sales catalogues to 1.2m, which he estimates are seen by 30m people.

This is a costly operation in Brazil, where high inflation means the catalogues must be reprinted

every 19 days, while the estimated inflation rate is factored into the sales price to cover the grace period for payment. Simply issuing new price lists did not work, says Serodio, explaining: "The catalogues are an essential tool of our salesforce in creating trust."

Serodio also radically changed the system of incentives for sales people, who work on 30 per cent commission. Rather than, as in the past, reward the people who sell most, prizes now go to those who most improve their own performance. Serodio explains: "Under the old scheme, it was always the same people who won, so it ended up not being an effective incentive."

The Amazon sales are a result of a new flexibility to adaptation to local conditions and the logistics problems of door-to-door sales in a country larger than western Europe.

Serodio admits he is not sufficiently familiar with the currency of the Amazon to judge how many breadfruit one needs to buy a lipstick or how many blushers to a nugget of gold. But, having paddled back to Amazonian towns, his sales women exchange the barter products for money and then pay Avon.

As a result, today in Brazil the Avon name may be known in places where even the usually ubiquitous Coke has not penetrated.

Serodio explains: "There is a cosmetics market everywhere, however peripheral the place. Cosmetics are not superfluous products, but a necessary part of a woman feeling good and being accepted by society."

He points out that, when Avon opened a sales office in the poor north-eastern state of Bahia in 1970, analysts claimed that the local per capita income was too low for the purchase of cosmetics.

Yet the São Paulo factory was soon filling truck loads of products bound for the interior of the state - one of the poorest parts of the continent.

Serodio says: "I didn't believe it. It countered all my training as an economist. So I went there and I found all these really poor people living in mud shacks yet buying cologne in crystal bottles."

"It turned out that they saw them as a status symbol."



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John G. Harvey  
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State Bank of South Australia  
19th May, 1993

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Notice of appointment of Administrative Receivers  
Company name: Thompson Worldwide Receivers Limited  
Registered number: 190821. Trading name: Thompson Worldwide Receivers Limited.  
Nature of business: Removals, storage, transport. Trade classification: 28. Date of appointment of Administrative Receivers: May 1993. Name of person appointing the Administrative Receivers: Lloyd Bank Plc. John Administrative Receivers: N J Voight. E M Shires (joint holder nos 6386 & 7982). Address: Corporate & Liquidated, PO Box 888, Orchard House, 10 Abdon Place, Middlesbrough, Kent ME14 6DZ

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## TECHNOLOGY

Graham Moore started working on converting Leipzig in east Germany from manufactured, dirty town gas to natural gas 25 years to the day after he began the process in Burton-on-Trent in the UK.

While it took four years to convert Britain to North Sea gas, Moore hopes that, by next year, he and teams of British Gas engineers working with west German energy companies will have finished converting east Germany to natural gas from Russia.

"We had more information about our customers when we started the conversion in the UK than we have here now," says Moore, who is a director of two regional distribution companies in east Germany: Gasversorgung Sachsen-Anhalt (GSA) and Gasversorgung Leipzig (GvL). "We need to do 10 years' worth of improvements here in two years."

British Gas engineers are helping to extend the east German gas grid into rural outposts, while marketing colleagues try to convince east German distribution companies to adopt a friendlier approach to customers.

British Gas has won 25 new contracts to revamp the east German gas business this year following its acquisition of stakes in the two distribution companies two years ago. Along with west German energy partners, British Gas has run the two distributors since they were privatised by the Treuhänder agency.

British Gas has invested DM70m (£28.4m) developing the two gas companies and plans a further DM30m until 1997. Its German subsidiary expects a turnover of DM30m this year - double last year's level of DM12.5m - and wants 50 per cent growth next year.

A priority for the distribution companies is to update the local gas grid so that natural gas from Russia and elsewhere can be carried to replace the manufactured town gas. British Gas has also taken a strategic 5 per cent stake in Verbundnetzgas, the east German gas transit company which carries Russian gas to local distribution companies.

Moore's experience of converting the UK to natural gas is vital in setting targets and priorities for the east German companies. British Gas has introduced computer technology that helps with the planning of gas networks and pipeline routes. This helps estimate the costs for a specific project.

One of the main tasks of western managers in the east German gas companies is to establish priorities. "We've got to decide where we're going and how to get there. We agree that conversion from town gas comes first, and then we work on extending the network," Moore says.

The company plans to complete



By next year, British Gas engineers working with west German companies will have converted east Germany to natural gas

## Modern methods in the pipeline

British Gas engineers are revolutionising east German home energy provision, writes Deborah Hargreaves

conversion to natural gas by the middle of next year. Initially, the utilities expected the conversion process to take until 1996, but the better organisation and focus that has come with western planning methods has meant it can be completed two years earlier.

A system of cost-accounting - highlighting for managers where they are spending money and where they need to cut costs - has helped east German companies target their investment. Once projects get under way, British Gas can offer the cost-saving technology it has used on similar work in the UK. The company is also using its swage-lining process for plugging leaks in the cast-iron old pipes - lining the old ones with a plastic skin without taking the pipes out of the ground.

UK contracting companies, such as Steve Vick, are moving into Germany to carry out work for British Gas. Steve Vick is using a rotamole system of boring underground to lay gas pipes, which is cheaper and quicker than digging up roads and causes less upheaval.

British Gas has also developed technical improvements to the way it digs trenches for laying pipe. With equipment such as a rock-wheel, mole-plough and chain trencher, the company has speeded up its trenching operations. The rock wheel, which has teeth that dig into the road surface, can lay pipes at up to 200 metres in an hour.

The company's efforts to link new parts of east Germany to the gas grid are being rapidly outstripped by demand. Moore explains how British Gas is able to tap into a vast unsatisfied demand for gas supply, adding around 15,000 new customers a year and converting 125,000 customers to natural gas last year.

"The inquiry level is unprecedented, especially compared with the UK, where we have to give up market share," British Gas is being forced by its regulators to shed part of its market in the UK to encourage the development of competition. The company has tried to win new customers by overhauling the east German approach to customer service. One of the hardest tasks

has been to convince their east German colleagues that customers have a right to know what the companies are planning to do and when. "Part of our marketing drive has been to create a positive image for natural gas by stressing its environmental advantages over town gas and brown coal," says Paul Robertson, planning manager of distribution and transmission at GSA.

Natural gas is cheaper for customers who use it for heating, but slightly more expensive for those using it just for cooking. But there is a high degree of awareness about the environment in east Germany and a lot of interest in environmentally friendly products.

"Before, all the east Germans could do was to fend off demand for gas - you could only get a supply by queueing at the energy ministry for hours and proving you had special needs, such as lots of children, or worked shifts," says Moore. "Customers are amazed to see us coming to their villages with a mobile office and information packs about what we're going to do and when."

Kevin Brown looks at an Australian company which may have a solution to a three-dimensional challenge

## A different angle on an old problem

In the arcane world of imaging techniques, there is no shortage of researchers trying to crack the problem of producing three-dimensional images which can be seen on a flat screen without the aid of special glasses or visors.

Most of the big electronics companies have investigated the problem and several techniques are being developed. All share a crucial problem, however - the image disappears or is impaired if the observer changes position.

The "sweet spot" problem restricts the potential of such systems to single-user applications such as computer-aided design, in which the screen is viewed from a consistent angle by an operator who does not move around.

So far, the challenge of developing a three-dimensional system which can be viewed from any angle in front of the screen and, therefore, by large numbers of people watching from different angles, has defeated all comers. However, a small Australian company called Trutan has produced a potential solution which is regarded as promising by imaging experts at IBM, the US computer company.

Trutan is an unlikely source of technological innovation. The company is a joint venture between Arnotts, an Australian hosiery company, and Bieken, a family company controlled by Donald Martin, a Sydney businessman.

In true inventor style, most of the development work has been carried out in a couple of cramped rooms on an industrial estate in suburban Sydney by Martin and Bjorn Olsson, a Swedish-born film technician.

Neither has a background in imaging technology, although Martin stresses that some of the technical work was carried out by academic researchers at universities in Cambridge, Melbourne and Brisbane.

Martin says he stumbled across the three-dimensional imagery system almost by accident while trying to develop a large-scale projection system for use by Arnotts

in the kind of entertainment simulators now appearing in suburban shopping malls.

So far, only one prototype has been constructed and that suffers from technical defects - principally a lack of brightness - which make the image appear dull and slightly fuzzy. Yet imaging experts who have seen the prototype have been impressed by its potential. James Lipscombe, an IBM researcher who specialises in stereoscopic imaging, says its defects are minor and easily solved.

Martin says his research into visionless, three-dimensional suggests that most researchers since the war have concluded that the idea was "about as feasible as perpetual motion". But a post-war French researcher called Francois Savio invented a mechanical contraption called a cyclostereoscope

which produced partial three-dimensional images over a small angle of view. Savio's machine consists of a vertical axle with a wheel at each end and a series of vertical strips fixed to the rims of the wheel. A small screen is placed inside the ring of strips, on to which a pair of slide projectors project separate left and right images. The photographs have to be taken with a double lens camera - not in itself a technical problem.

When the machine is rotated, the vertical strips form a moving grid in front of the screen which separates the image into alternate left and right images, replicating normal stereoscopic vision. Martin's "improved" version of the cyclostereoscope produces a three-dimensional image with a near 180-degree angle of view. However, the image is weak, and

is distorted by the moving grid, which remains visible in front of the screen.

This problem is reduced when the image is viewed on a flat-screen computer monitor situated behind a liquid crystal display screen - effectively an electronic version of the cyclostereoscope. The computer is programmed to display left and right views of slides in segments which are viewed through a series of oscillating parallel bars on the LCD screen which match the segments on the computer monitor.

The LCD grid oscillates at a rate which makes it invisible to the observer while directing the left and right images to the correct eyes, producing the three-dimensional illusion. It does work, at least with static images. Martin claims the system could be adapted for use in broadcasting.

However, the company says the technical limitations of the present video standard impose problems that are impossible to overcome - chiefly, a noticeable flicker caused by the frame rate (the speed at which image frames succeed each other on screen). This happens because of difficulties in blending the left and right images and the oscillating grid when the image changes. Research indicates that even high-definition television systems, which use a higher frame rate than existing broadcasting systems, would suffer from some degree of flicker.

Two possible solutions have been identified: restricting the system to specialised, custom-made units with frame rates at least double the existing standard; and developing a special monitor incorporating the LCD grid in the screen.

In the meantime, the company claims several Australian companies are investigating possible industrial applications for the system, such as remote control of mining vehicles in dangerous areas.

However, Martin says the shortage of development capital in Australia means the technology is likely to be sold to an overseas company for further development.

## PEOPLE

### Boleat's pro-active stance for the insurers

Mark Boleat, (left) who has wooed plaudits throughout the industry during his seven years as director-general of The Building Societies Association, will be lending his voice, from August, to an entirely different industry as director-general of the Association of British Insurers.

He says that after 20 years at the BSA he felt it was time to move on, the attraction of the ABI being that it represented an opportunity to speak for "a more complex industry" and to wield a budget six times as large.

"I didn't want to be stuck being known as someone who can do one thing only," remarks Boleat, who has in the past been assumed to harbour national political ambitions.

Indicating that it wanted a fresh approach to try and put behind it a string of public relations disasters, the ABI engaged headhunters to find its first director-general. Boleat explains "they want a much more pro-active stance, with the ability to anticipate developments a bit more, rather than just being responsive".

Mike Jones, who joined the Life Officers' Association in 1968 and who has been chief executive of the ABI since 1987, says he is leaving, "looking for fresh woods and pastures new."

Boleat, 44, reckons his biggest achievement at the BSA and the Council of Mortgage Lenders, of which he has been director-general since 1989, has been to help make it the most effective trade body in the financial services industry.

"We have helped to create the right regulatory and prudential framework for building societies. It is remarkable that despite [the problems in the housing market] the societies



have come through a bit battered, but intact." Analysts said that, while he could appear arrogant, he had "worked like a dog for the industry".

There are a huge number of regulatory issues, many of which will be identical at the ABI, notably the establishment of the Personal Investment Authority (PIA) Boleat adds. At the same time, he acknowledges that the interests of the 450 members are much more diverse, with general and life companies often having directly contradictory agendas.

In his new role he may also find himself doing public battle - where the interests of insurers and building societies diverge - with his former colleague Adrian Coles (right) who steps up from the position of head of external relations to succeed him at both the BSA and the CML. Coles has already won himself plenty of friends - "quieter but with an intellectual credibility second to none" was the comment of John Wrigglesworth, housing analyst at UBS.

John Jackson, operations director of the Body Shop, the natural toiletries and cosmetics group, has left the company after five years.

The company said yesterday there was "no drama and curiosity" in his resignation, which did not result from any disagreement. It said Jackson felt he had achieved all he could with the company, and was looking for new challenges, perhaps in the shape of a chief executive's position - a post that is not vacant at Body Shop. Jackson was not available for comment.

Jackson joined Body Shop from Chesebrough-Pond's, the cosmetics subsidiary of Unilever, in 1988. He has been closely involved with the reorganisation of the Body Shop into seven distinct divisions - comprising UK, US and worldwide retailing, and the company's production and warehouse operations, soapworks, make-up and cosmetics divisions - which was completed last autumn. Body Shop said Jackson would continue to work with chairman Gordon Roddick on the Big Issue, the magazine whose proceeds go towards helping the homeless.

Lord Rees-Mogg, editor of The Times between 1987-1991 and recently making his own

headlines with his critique of prime minister John Major's performance, is going onto the board of International Business Communications as a non-executive director.

IBC, which runs conferences and publishes newsletters, saw its shares rise to 1.6p at the end of 1990. "We are quite pleased that the price has now climbed to 8 1/2p" says chief executive Peter Rigby.

But why should Lord Rees-Mogg, who sits on the board of GEC, be interested? "He runs his own newsletter [Strategic Investment]," Rigby replies "and he takes an interest in newsletter subscription publishing".

IBC's chairman was Sir Roy Watts, the former chairman of Thames Water who died suddenly last month. The company says it is looking for a new chairman, but that Rigby will assume the position temporarily.

David Gibbard, previously commercial director of SOUTH WALES ELECTRICITY, is to become operations director. He will be succeeded by Michael Mackey, who was power supplies manager.

Byron Sammel, the current operations director, is retiring at the end of July.

president of SUMITOMO BANK Ltd, Sotao Tatsumi, formerly president, becomes chairman and director.

Lynn Dukes is promoted to chief executive operations and finance of BZW.

Luke Ponaonby, Robert Pickering and Charles Bishop have been appointed partners of CAZENOVE & Co.

Javier Salaverri has been appointed a director of J HENRY SCHRODER WAGG & Co; he moves from Banco Central Hispano.

Reinhold Gattienari has been appointed an md of TRINKAUS MONTAGU, the joint venture between Trinkaus & Burkhart and Samuel Montagu.

Tim Barker, deputy group chief executive, has been appointed a vice-chairman of KLEINWORT BENSON GROUP, Rab Harley, head of operations, is appointed to the board.

Michael Sweeney, director of the capital markets division, has been appointed head of treasury in London for BANK OF IRELAND.

Michael Clarke has been appointed joint general manager with responsibility for international finance and syndications at FUJI BANK in London. He was previously assistant general manager.

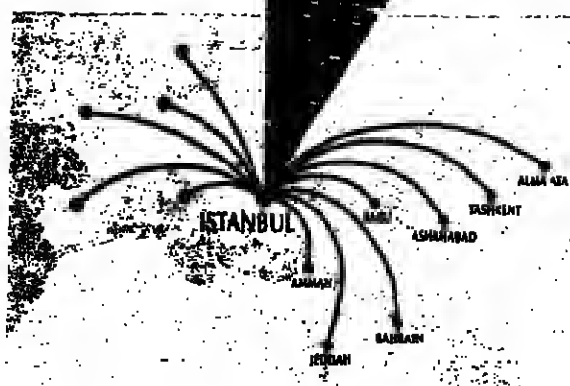
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Cinema/Stephen Amidon

# A cut in the wrong direction

When it was first released in 1989, *The Abyss* was a half hour away from being a very strong movie indeed. Its writer and director, James Cameron, seems to have realised something was amiss and has now used the clout he has gained from making *Terminator 2* to have the movie released in a Special Edition, or Director's Cut. The idea is that the decision to alter the film to make it more audience friendly is thereby reversed. Unfortunately, Cameron's

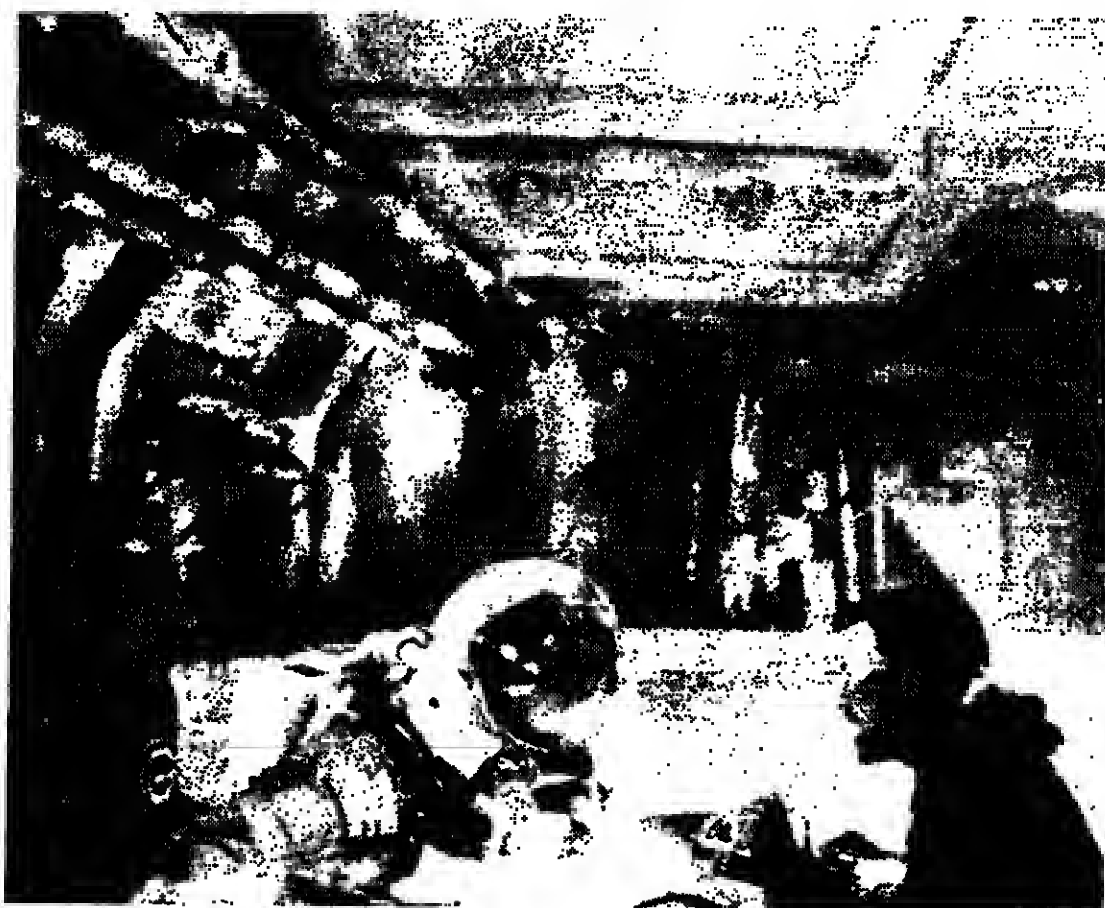
picture with a tendentious morality play in which World War III is averted by these squishy ET's when they unleash giant tsunamis on the Super Powers to make them put their nuclear weapons away. The resulting blend of dated and simplistic Cold War politics, overwhelming special effects and sentimentality thoroughly undermines the two hours of skilful action and suspense that preceded it, forcing one into the rather alarming conclusion that those chop-happy studio executives might not be so purblind after all.

Cameron's special edition also calls into question the whole recent trend of Director's Cuts, which, with the exception of last year's restored *Blade Runner*, seem to be little more than yet another way Hollywood is trying to have its cake and eat it too. After all, filmmaking is a collaborative process. What does the future hold - Actor's Cuts? Cinematographer's Cuts? The only thing you can be sure of is that the studios and the producers will certainly be getting their cuts, both times around.

If there were such a thing as an Audience Cut, *Nowhere to Run* would be five minutes long. One minute (at the amount of time Rosanna Arquette spends naked, the other four devoted to Jean-Claude Van Damme as he raptures the spleens and deviates the septums of various baddies with his vaunted martial arts. As for the remainder of the film, it is hard to see who the makers had mind as potential viewers when they consigned it to celluloid.

The plot, such as it is, has Van Damme playing an escaped con who bores up on the farm belonging to a noble widow (Arquette) being threatened by greedy real estate developers. After the obligatory rocky start to their relationship, Van Damme and Arquette soon fall into the sack and then join forces to see off the bad guys.

*Nowhere to Run* is the latest step in the effort to domesticate the Belgian Bruiser. As such, it is a



Not so special: scene from James Cameron's 'The Abyss'

resounding failure. Unlike Schwarzenegger or Willis, Van Damme is utterly lacking in charisma, his bland stoicism failing to suggest anything other than, well, bland stoicism. He is unable to humanise his macho antics with the sort of self-deprecating wit needed to break free of the straight-to-video category. To make matters worse, his toned down and surprising lacklustre fighting here should prove a disappointment to his regular core of fans. And as for Arquette, it is sad to see this once promising actress reduced to playing little more than a bernaline sauce to Van Damme's slab of beef.

It is easy to see why a video star wants to go upmarket. What is harder to figure out is why the fine film actor Wesley Snipes wants to travel in the opposite direction. After a series of roles that put him well on the way to becoming one of the most popular black leading men of all time, Snipes finds himself up in the air in *Passenger 57*, a hack-

neyed action movie that might have given even Van Damme pause.

The story has Snipes playing a former cop turned airline security consultant who locks horns with a "sophisticated British aristocrat" (Bruce Payne) who also happens to be a lunatic with a penchant for blowing up 747s. What results is so laughably ill-conceived that you keep on expecting Snipes's agent to burst out of one of the hijacked plane's toilets and force the whole thing to make an emergency landing. Unfortunately, it keeps on going right up to the bloody finale, in which, ironically, Snipes fights with far more aplomb than the new model Van Damme.

*I Was on Mars* is the story of Silvia (Maria Schrader), a young Polish woman who arrives in New York with plenty of dollars but apparently little in the way of motivation or common sense. She wanders aimlessly about the city for a few days, only to be relieved of her cash by Alio (Dani Levy), a slick

con man with a line of patter only someone fresh off the boat could buy. Not one to take this sort of thing lying down, Silvia decides to pursue Alio, soon involving herself in his bizarre existence and exacting a subtle yet telling revenge.

Fans of *Stranger Than Paradise* and *Johnny Suede* will find themselves on familiar turf here, though the film lacks the bizarre sublimity of those two efforts. Director Levy has a wonderful eye for detail - Silvia carries an iron in her briefcase but only one change of clothes, while Alio garnishes his cocktails with Twinkies. And Schrader's Silvia is a memorable creation, a woman who uses passivity as a weapon more effective than anything the men she finds herself among can employ. But the film fails to establish a consistent comic pitch, undermining its fine observation and characterisation with an unannounced worsened by tendency to indulge in weirdness for its own sake.

Opera/Andrew Clements

# The Makropoulos Case

David Pountney's staging of *The Makropoulos Case* seems to have been in the repertoire of one or other of the British companies ever since it was first seen in Glasgow 12 years ago. It has come back to Scottish Opera now to end the company's season. Sally May has directed the revival, John Mauceri conducts his last show as Music Director. A production that was for so long dominated by Josephine Barstow's Emilia Marty now has Kathryn Harries in the central role, and it is she who finally makes the evening a truly memorable one.

Certainly the early indications were not auspicious. There is something rather tired-looking now about Maria Björnson's designs, which conceptually seem already to have been consigned to a departed age of opera production, though whether that feeling is fuelled by nostalgia or hard-headed realism is difficult to determine. In the opening scenes too the show itself seemed rather over extended, as if this were one revival too far; it took a while for the direction to establish itself, for the playing to cohere and for what turned out eventually to be some very well observed characterisations to make themselves felt.

Most surprising was Mauceri's lack of assertiveness in the first act. The orchestral playing sounded tentative, only hanging on to Janáček's exposed lines by the skin of their teeth. It was not until the conductor began to relish the tendrils of Straussian lyricism which buoy up the confrontation between Emilia and Prus at the climax of the second act that his part in the performance began to matter; from there to the end of the opera he provided a surging, vivid orchestral canvas.

Ms Harries too only gradually took charge. She certainly needed to pace herself for the challenge of the last act, but nevertheless

seemed rather reticent through much of the first, often masked by the orchestra (which, a sign of insecurity perhaps, was consistently too loud) and swallowing her words. Thereafter she was transformed, wonderfully vivid in the sharp exchanges of the second, mingling flashes of fierce temper with glimpses of the vulnerability that would make the final scene deeply affecting.

Instead of the Barstow hauteur Harries offers a feckless disregard and an absolute lack of moral centre. That is tempered by a sweetly turned sense of comedy - wonderful drunk acting! - which seems a new element in her stage persona. All the while the vocal lines gradually gain steadily in power and authority, the tone colour deliciously varied, and the cruel extremes of the last act were all handsomely negotiated.

The gallery assembled around this fascinating portrayal had their own individual strengths. Nigel Robson's humbling Gregor suffered most from the over strenuous orchestral playing early on but gradually established the character in rich detail. Donald Maxwell's Prus was authoritatively grasping and manipulative from the start, with exemplary diction. Nigel Douglas contributed a typical Hawk-Sen-dort, Stephen Bennett a convincingly upright Kolenaty; there a nicely turned Dresser from Margaret Izatt, a usually harmless Janek from Iain Paton. Any *Makropoulos* production, though, finally stands or falls by the strength of its Emilia Marty, and in this case there is no doubt of its success.

Theatre Royal, Glasgow; further performances May 22, 25, 27; then on tour to Aberdeen, Edinburgh and Newcastle

Recital/David Murray

# Von Otter and Tan

In the Wigmore Hall on Tuesday, Anne Sofie von Otter sang Haydn, Mozart and Schubert to Melvyn Tan's "fortepiano" (a modern copy, I think). The hall was packed, of course; this young mezzo is nowadays a universal favourite, and Tan is the man to persuade us that period *Lieder* - from, say, Schumann and Loewe back - are best performed on a period piano. At the end, nevertheless, when Miss von Otter was cheerfully guying both her Haydn encores, the recital seemed to have been less than the sum of its parts.

She was in lustrous form. There are voices that sound best in the Wigmore simply because they do not carry as well in larger halls, and other, grand-voiced ones that need to be kept on a tight leash. Von Otter is one of the lucky few that can sound unstintingly vital and vibrant there, and still listen-friendlily. Her programme culminated with Haydn's "Ariadne on Naxos" cantata, which she delivered as a towering dramatic *scena*; certainly it bounced off the back wall, and yet it left no bruises on the ear.

Earlier she had delivered Schubert's "Erlkönig" with comparable force and intensity - though the tiny, wheedling voice she adopted for the erling himself was too much of a conscious trick. The real revelation of that performance was owed to Tan: viz. that a "fortepiano" can do its brilliant utmost with Schubert's desperately taxing accompaniment, where a pianist with a modern grand can never afford to let rip for fear of drowning

out the singer. What that illustrated was no quaint, trivial advantage for the old-style instrument (such as every great song-composer until Wolf and Debussy had in his mind's ear), but a serious modern challenge.

If fearsome problems of balance in many *Lieder* simply evaporate when the right kind of piano is in play, why should we go on assuming that for general purposes there is no alternative to the 20th-century grand? Pianists will say: with the big hi-tech instrument, we get subtle note-by-note control of the sounds we make. But before Wolf and Debussy, do they need such hyper-refined control?

Von Otter's other best Schubert was the little "Romance" from *Rasamunde*, delivered with lovely simplicity, along with the Gothic narrative of "Der Zwerg" (a newly popular rediscovery). Though there is no alternative to the 20th-century grand? Pianists will say: with the big hi-tech instrument, we get subtle note-by-note control of the sounds we make. But before Wolf and Debussy, do they need such hyper-refined control?

His solo offering, Haydn's A-flat Sonata (no. 31, by the Robbins Landon count), was too bonelessly pretty and unstructured to make its proper mark, and his rhythmically wayward reading of Schubert's "An die Musik" was less painful than just futile. Though most of his accompaniments were brighter than that, one had expected more sober penetration, and was therefore just a little disappointed.

Cabaret theatre/Antony Thorncroft

# Mounted in the Garden

"Mounted in the Garden" could only mean that Kit and the Widow, that most scurrilous of double acts, have retitled their bow-tie, ironed their tails, and assembled a mélange of songs, old and new, to subvert the nation. It is the perfect late night entertainment at the Donmar Warehouse and places a substantial whoope cushion under the worthy Covent Garden Festival.

Over the years the relationship between the two has shifted. Kit (Hesketh-Harvey) is still the masterful head prefect, but marriage has exposed a softer side, adding to the repertoire not only a double edged love song, but also a nursery lullaby, an ABC of African animals. The Widow (Richard Sisson) still looks like a Victorian curate with flatulence but he now occasionally leaves the piano stool to tell, with studied diffidence, risqué jokes.

The basics stay the same - mordantly witty songs, performed with camp bitchiness. Thankfully some of the old faithfuls are retained - the old queens having a furious row on the way to Clydeboune; the hundreds of Norwegians doomed to travel for

ever on the Bakerloo Line with Peer Gynt; Kit resolutely refusing to get into bed with Madonna.

But the poisoned pen has moved with the times. Let's hope the Queen never gets to hear "Cheer Up, Marm!" it could convince her to call the whole thing off. There is also one of those cabaret songs that hark back to Duggie Byng and pre-war supper club days, "Geoffrey Porlock the Warlock", whose Wednesday evenings at Datchett near Slough sound decidedly messy.

What is remarkable about Kit and the Widow is that they manage to insult all the tokens of their fans and leave them desperate for more abuse. The City types bay loudest at the pastiche of the Eton Boating Song which finds them dangling in the Old Bailey on fraud charges; the Sondheim freaks accept the total demolition of their god with well controlled hysterics. Kit is so much one of us, when he forgets to be one of them, that he provides the perfect escape for subversive thoughts. It may well be forgotten in the cool night air but for an hour or so we have smashed the Establishment and had a smashing time, too.

London Jazz Festival/Garry Booth

# Music for the thinking man

There was a time when jazz music was easily identified by its instrumentation, syncopation or its nifty improvisation. But contemporary music has become harder to label and today's Venn diagram of jazz contains a perplexing number and diversity of sets. From hip-hop to hardcore and new music to world music, everybody wants a piece of jazz and jazz wants a bit of everybody else. But if the argument over whether the interchange dilutes or strengthens the jazz tradition is long and circular as an Evan Parker soprano solo, what is certain is that festival programmers have an ever widening spectrum of possibilities from which to choose.

The London Jazz Festival, which winds down this weekend, has ranged from scientific abstraction to the loopy *riddim* of reggae via explosive fusion and the effing and blinding of rap. Yet one of the highlights of the week has been provided by the (rare) appearance of jazz music's master of understatement, US guitarist Jim Hall. Ever the thinking musician's guitarist, Hall has achieved a modest cult following for his quiet communion with pianist Bill Evans, clarinetist Paul Desmond and the swaying reeds of Jimmy Giuffrè.

Joined on the altar of Islington's Union Chapel by the choice chords

of pianist Larry Goldings, Hall unfolded a succession of exquisitely fragile arrangements that bound together beautifully with the minimalist volume. "This next one," he said to the sound of pins dropping, "is a stretched out blues with some funny notes in it." So subdued and spacious was Hall's delivery that applause for delicacies like "Some Day" and "My Funny Valentine" seemed intrusive. His more swinging originals featured devastating technique and razor rhythm delivered with similar nonchalance.

In stark contrast to Jim Hall's effortless enchantment of his audience, putting Brazilian salsa queen Tania Maria put a great deal of energy into dislodging that electricity generated by an extolable crowd at the Forum in Kenilworth Town the following night. Somewhat exposed at the keyboards (electric and acoustic) in a trio alongside bassist Eddie Gomez and percussionist Don Alias, Maria's hamfisted attempts at crowd control were enervating. An early attempt to enjoin the party crowd in a clapping session failed when it became clear that Maria herself was unsure of the time signature. Poor Gomez and Alias stuck doggedly to their groove as Maria splintered chords and wailed hideously into the wraparound mike. At the controls of a large and fast

moving band, Maria's fiery fusion of Brazilian dance music and jazz can be exhilarating; uncut it is more like salsa hell.

The four trombones (one a bass), three trumpets and various reeds of John Surman's Brass Project provide the perfect antidote to this sort of nonsense. Kicked along by a feisty rhythm section and all overseen by director John Warren, Surman's swooping bass and alto clarinets, soprano and baritone saxophones front a uniquely English and folksy form of big band jazz. But Warren's compositions, most of them new and premiered at the Lillian Baylis Theatre, packed in well sprung Ellingtonian themes, choral and classical sentiment rounded off with an extraordinary arrangement based on the music hall refrain "My old man said follow the van...". Surman's own soloing goes from strength to strength. His spiralling soprano helped by a delay button was hypnotic, the dancing baritone set against ostinato brass uplifting. The concert will be broadcast on Radio 3 on June 5.

Sponsors: The London Boroughs of Camden, Islington and Hackney; The London Arts Board; London Boroughs Grant Committee; and the training and enterprise council

## INTERNATIONAL ARTS GUIDE

ATHENS

Megaron Concert Hall Sat and Mon: Alain Guingard conducts English Chamber Orchestra and Concertus Vocallis Chorus in concert. Performances of Gluck's *Iphigenie en Tauride*, with Ellen Shede and François Le Roux. Tues: Claudio Abbado conducts Berlin Philharmonic Orchestra in works by Richard Strauss and Mahler (722 5511).

ROME

Teatro dell'Opera Tues: first of nine performances of *La traviata*, with Gisel Devini, Luca Canonici and Renato Bruson. Programme subject to cancellation or change at short notice (481 7003).

LONDON

THEATRE  
● Antony and Cleopatra: Richard Johnson and Claire Higgins head the cast in John Caird's RSC production of Shakespeare's great historical love story. Previews begin

tonight. Press night next Wed (Barbican 071-638 8891).

● The Changeling: a Jacobean thriller by Middleton and Rowley, containing the classic ingredients of lust, murder, madness and sex. An RSC production directed by Michael Attenborough (The Pit 071-638 8891).

● Juno and the Paycock: Gate Theatre Dublin's acclaimed production of the Sean O'Casey play, starring Anita Reeves and Niall Buggy. Till June 19 (Albany 071-867 1119).

● The Last Yankee: Arthur Miller's new masterpiece about a quartet of middle Americans troubled by material success, in a West End transfer of David Thacker's Young Vic production (Duke of York's 071-836 5122).

● Relative Values: the second production of this year's Chichester Festival is Noel Coward's classic comedy of English manners, starring Susan Hampshire and Sarah Brightman. In repertory with Shaw's comedy *Getting Married*, with Tony Britton and Dorothy Tutin (Chichester Festival Theatre 0243-781312).

Coliseum Tonight: Mark Elder conducts revival of David Pountney's production of *Macbeth*, with Malcolm Donnelly and Kristine Ciesinski. Repertory also includes David Alden's acclaimed new production of *Antony and Cleopatra*, with Nicholas McGegan with Ann Murray and Amanda Rocforot, and Il barbiere di Siviglia with Della Jones (071-638 3161).

Queen Elizabeth Hall Tomorrow: Mark Wigglesworth conducts first of nine performances of David Freeman's 1991 Opera Factory production of *Le nozze di Figaro* (071-638 8800).

Sadler's Wells Tonight, tomorrow, Sat: final performances of *Nederlandsche Theaterson*, with choreographies by Naharin, Kylian, Lightfoot and others (071-278 8916).

CONCERTS  
Barbican Tonight and Sun: Vladimir Feltman plays Schumann's Piano Concerto with LSO conducted by Michael Tilson Thomas (replacing previously advertised appearances by Michelangeli). Tomorrow: Franz Liszt Chamber Orchestra with piano soloist Deszo Ranki. Sat: Witold Lutoslawski conducts London Sinfonietta in 80th birthday concert (071-638 8891).

South Bank Centre Tonight: Giuseppe Sinopoli conducts Philharmonia Orchestra in Mozart, Berg and Brahms, with soprano Barbara Hendricks. Tomorrow: Matthias Bamert conducts LPO in music by Faure, Frank Martin, Eger and Debussy. Sat: Sinopoli conducts Strauss and Mahler. Sun afternoon: Olli Mustonen piano recital. Tues and Wed: Bernard Haitink conducts

LPO in Schubert. Tues (QE): Esa-Pekka Salonen conducts Ensemble InterContemporain in works by Weill, Lindberg and Kaija Saariaho. May 30: Riccardo Muti conducts Vienna Philharmonic (071-928 8800).

BERGAMO

The Festival Pianistico Internazionale di Brescia a Bergamo focuses this year on Brahms, Schubert, Tchaikovsky and Rakhmaninov. Grigor Sokolov plays Brahms' Second Concerto tomorrow at Bergamo's Teatro Donizetti with Hungarian National Philharmonic Orchestra under Adam Fischer, repeated on Sat at Brescia's Teatro Grande. Gerhard Oppitz gives Brahms recitals on Sun at Bergamo and Mon at Brescia. The festival runs till June 9 (Bergamo: tickets 249631/information 240140. Brescia: tickets 59448/information 293022).

BARCELONA

Gran Teatre del Liceu Tonight: Jordi Savall conducts first night of Gilbert Delfo's staging of Monteverdi's *Orfeo*, with a cast including Mark Tucker, Jennifer Larmore and Alison Browner. Repeated May 23, 25, 27, 29, 31 (412 3532).

● Information and booking for cultural events available through Caixa Catalunya from 08.00 to 14.00 (310 1212).

FLORENCE

MAGGIO MUSICALE  
Tonight and next Wed at Piccolo Teatro, Luciano Berio discusses

his music. Tomorrow, Sat, Sun, Tues at Teatro della Pergola: four Diaghilev ballets starring Carla Fracci and other guests. Mon: Michael Rudy plays piano music by Janacek. Next production at Teatro Comunale: Carmen, opening May 29 (277 9236).

GENOA

Teatro Carlo Felice Tomorrow, Sun afternoon, next Wed, Fri, Sat and Sun: Mascagni's *Cavalleria Rusticana* and Poulenc's *La voix humaine*, with alternating casts including Giovanna Casolla as Santuzza, Simone Alaimo as Alfio and Renato Scotto in the Poulenc. Tues: Leo Nucci song recital (589329).

MADRID

Teatro Lirico La Zarzuela Mon: Lamberto Gardelli conducts first night of Elijah Moshinsky's production of *La forza del destino*, with Carol Vaness, Giuseppe Giacomini, Paolo Gavanalli and Carlos Chausson. Repeated May 27, 29, June 1, 4 (429 8225).

MILAN

Teatro alla Scala Tonight, Sun, next Tues and Thurs: James Conlon conducts Luca Ronconi's new production of Weber's *Oberon*, with alternating casts including Robert Gambill, Elizabeth Connell and Ben Heppner. Mon: Carlo Maria Giulini conducts Brahms' German Requiem, with Lynne Dawson and Andreas Schmidt. Next Wed: Fedora (7200 3744).

Teatro Lirico Tonight: double bill

pairing Nino Rota's ballet *La Strada*, choreographed by Mario Pistoia, with a group of contemporary Italian choreographers. Debut except Mon till May 27 (7200 3744).

PRAGUE

Fernando Furlanetto sings opera arias tonight at Dvorak Hall with National Theatre Orchestra conducted by Petr Vronsky. Tomorrow and Sat afternoon at St Vitus Cathedral: Jiří Kout conducts Prague Symphony Orchestra and Czech Radio Choir in Mahler's Eighth Symphony. Tomorrow evening in Dvorak Hall: Josef Suk violin recital. Sat evening: Václav Neumann conducts Czech Philharmonic Orchestra in works by Dvorak and Suk. Sun: Suk Chamber Orchestra. Tues: concerts by St Paul Chamber Orchestra and Prague Philharmonic Choir. Wed: Tadeusz Strugala conducts Czech Radio Symphony Orchestra in Gounod, Tchaikovsky and Rakhmaninov. The festival runs till June 1 (530293).

OPERA

Prague State Opera has *L'italiana in Algeri* tonight, Salome tomorrow, *La traviata* on Sat, Tannhäuser on Sun, Les Contes d'Hoffmann on Tues and Madama Butterfly on Wed. May 29: first night of new production of Jenufa (265353). National Theatre repertory includes *La forza del destino*, *Rusalka* and Don Carlo (205364).

● Tickets can be ordered from abroad through Bohemia Ticket International, Salvatorova 6, 11000 Prague 1 (fax 231 2271).

ARTS GUIDE

Monday: Berlin, New York and Paris.  
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.  
Wednesday: France, Germany, Scandinavia.  
Thursday: Italy, Spain, Athens, London, Prague.  
Friday: Exhibitions Guide.

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Saturday Super Channel: Financial Times Reports 0830  
Sky News: West of Moscow 1130; 2230  
Sunday Super Channel: West of Moscow 1830  
Super Channel: Financial Times Reports 1900  
Sky News: West of Moscow 0230; 0530  
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# Flops at the top of corporate Germany



The typical west German senior manager is male, aged 40 to 65, ambitious, incapable of real teamwork, insecure to the point of paranoia, incompetent and probably corrupt. So, at least, argues Günter Ogger in a book which seeks to prove with a wealth of anecdote that virtually all top German managers are *Wiederholer*. The title translates roughly "Flops in pin-stripe suits: the twilight of Germany's managers."

It is managerial failure, Ogger claims, rather than broader macroeconomic trends, which lies at the root of Germany's current economic malaise. This irreverent argument challenges the self-esteem of German business leaders who, until the present downturn, basked in the belief that they, more than any other class in German society, were responsible for the prosperity of the federal republic.

As that prosperity has started to look fragile, and Germany finds itself in its worst recession since the second world war, Ogger's book has captured the mood of the times. It has become a best seller, appealing to the German habit of self-excoriation and providing a "rogue's gallery" of failed business leaders.

His argument accords with the views expressed by a small but vociferous band of shareholder activists who have been trying to start in Germany the kind of debate over "corporate governance" which has taken place in the UK and the US.

Whereas the mechanism of the hostile takeover serves to punish UK and US managers if they are slow to deliver short-term financial performance, their German counterparts are insulated from stock-market pressure by networks of cross-holdings and other devices designed to remove the threat of unfriendly takeovers.

Only very rarely do these protection mechanisms fail - such as last year when Hoechst found itself being taken over by the rival steel company Krupp. But most big companies enjoy shareholder "stabil-

NIETEN IN NADELSTREIFEN  
Deutschlands Manager in Zwicklicht  
By Günter Ogger  
Droemer Knauer, DM38, 272 pages

ity" which leaves managers free to treat private and institutional shareholders as little more than an occasional fundraising source.

The system also leaves managers free to pursue ambitious expansion plans without taking into account such pedestrian short-term considerations as profitability.

Ogger cites the example of Daimler-Benz, Germany's largest industrial company, where annual sales have expanded to nearly DM100bn since Edzard Reuter took over as chief executive in 1987 - but profits have dwindled to an expected DM1bn this year.

"Until 1985, it was the most solid, most profitable and best managed company in the whole of the Federal Republic of Germany," he writes, "but now Daimler is battling with enormous structural problems and must lay off staff for the first time since the war."

Another example is Mannesmann, the engineering group, where annual turnover has doubled to DM24bn under chief executive Werner Dieter, but profits have fallen to less than half their former levels.

Such companies provide classic examples of how German capitalism has worked. Managers are appointed and their performance monitored by supervisory boards. The two-tier board system - which divides responsibility between the management board, on one hand, and the supervisory board, on the other - is often cited as an important reason for Germany's post-war economic success, worthy of imitation in the UK and the US.

But Ogger contends that the supervisory board system has degenerated into a clique of some 200 ageing men working together to perpetuate each other's power and perks - a "you vote for me and I'll vote for you" influence cartel which has failed to prevent poor management decisions.

One consequence is the misallocation of financial

resources - one reason why the German economy is heavily weighted towards moribund sectors such as cars and capital goods. The successes which the German economy can claim, Ogger says, are due not to managers but to well-educated technicians, craftsmen and engineers who build good products in spite of management.

Drawing almost exclusively on secondary sources, Ogger's analysis makes no pretence of being fair. It is an entertaining harangue which might have been balanced by greater attention to the failings of the Anglo-Saxon system - for example, the questionable efficiency of takeovers as a way of dealing with managerial ineptitude.

It is does not tackle the anomaly that, although the shareholders are not the first priority of management, the German system can still produce superb returns for them. Allianz, the giant insurance company, pursued a questionable expansion policy throughout the 1980s and, until recently, put little emphasis on explaining itself to institutional shareholders. Despite this strategy, it was the best-performing German share over the past decade.

Nor does the book offer any compelling solutions to the management problems which it identifies, beyond citing a few truisms imported from US management gurus. It suggests, somewhat fortuitously, that German companies should try to become leaner and fitter and German managers more honourable and less bureaucratic.

Sheer commercial and economic pressure, however, is forcing German companies to find their own solutions. Rationalisation has become the order of the day, as witnessed by Ferdinand Piech's tough regime at Volkswagen. Daimler's recent decision to abandon the holding company structure which served as its chief anti-takeover device and seek a listing on the New York Stock Exchange shows that managers will have to come out from behind the barricades if they are to have access to the world's largest capital pool.

David Waller

As no worthwhile comment on the course of the British economy can be made before today's unemployment figures, I am leaping in to fill this space with a more fundamental argument: namely why "socialism" - in the original sense of comprehensive state ownership and direction of the economy - has proved a delusion.

The most popular argument, especially among businessmen, is some version of the incentive argument. Socialism would be wonderful, it is said, but people do not work for idealistic motives and require something more tangible. The whole argument is encapsulated in the awful saying: "Anyone who is not a socialist before 21 has no heart. Anyone who is still a socialist after 21 has no head."

This kind of critique must have been heard by generations of students; and it makes little appeal. It generalises too freely about human nature and ignores many humdrum types of unpaid work, such as routine charitable and social work, regularly and competently performed by thousands.

The basic argument against full-blooded socialism has little to do with selfishness. It is that without a functioning "capitalist" market even the most noble-minded would lack the information to go about their jobs effectively.

The reason can be put into a few sentences. Efficiency is not just a technical concept. There is an unlimited number of ways of producing anything: skilled workers with complicated machines can be employed or unskilled workers with simple machines. Should word processors or typewriters be used, and which type? Should desks be of wood or steel? Is a head office a good idea, or can managers link up from their homes? There is no end to such questions.

But without a pricing system, which tells us about the relative scarcity of these different inputs, a manager cannot begin to act rationally. Nor are the resulting losses trivial. The capital intensive, but wildly unsuitable and heavily polluting, industrial plants dotted about the landscape of eastern Europe are testament to the costs of an inadequate pricing system.

Although the above critique is sometimes called the "problem of socialist calculation", it is not a dry accounting matter. The price system - by which is meant not the rate of inflation but relative prices - incorporates the dispersed knowledge

## ECONOMIC VIEWPOINT

# 'Socialism' and human nature

By Samuel Brittan

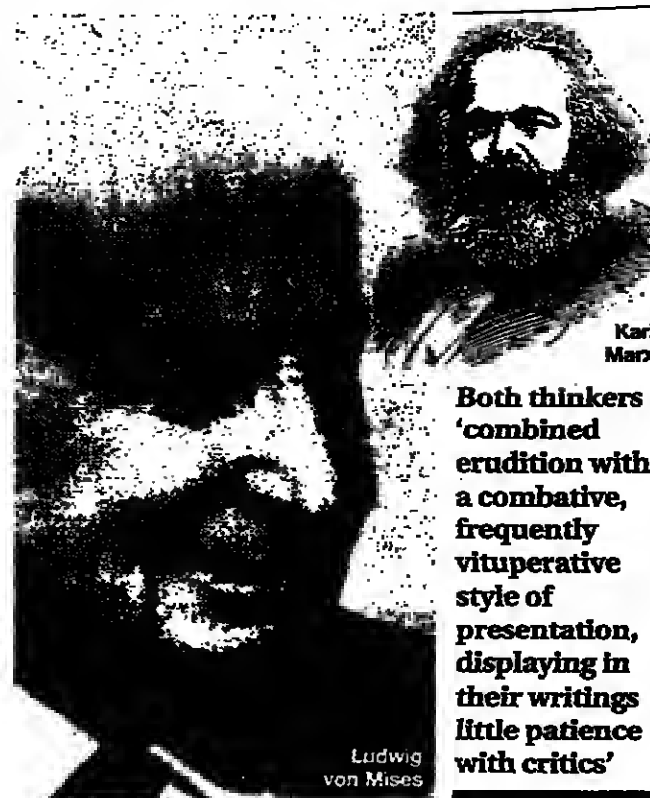
of millions of people, which is fed into the economic system in terms of the prices they are prepared to pay for different resources - or change for their own inputs. A command economy throws this data away.

The main originator of this informational critique of socialism was Ludwig von Mises, an Austrian-born economist who lived from 1881 to 1973. But after enjoying a vogue in the 1920s and 1930s Von Mises faded out of the view of mainstream economists who wrongly believed he had been answered.

A new book makes a comparison with Karl Marx. Both thinkers "combined erudition with a combative, frequently vituperative style of presentation, displaying in their writings little patience with critics. They each attracted a small, industrious band of dedicated disciples prepared to brave - and reciprocate - the disdain of conventional thinkers."

This is a passage in *From Marx to Mises* by David Ramsay Steele (Open Court, La Salle, Illinois). Steele was a British Marxist in the 1960s, then became a Mises disciple. He is now a Chicago publisher and more sceptical of both teachers but still impressed by the "socialist calculation" critique. He is thus well qualified to summarise the debate and put it into perspective.

The Mises critique does not apply to many who call themselves socialist but really believe in welfare capitalism. Although Mises was opposed to this as well, his critique, as Steele rightly says, fails to demolish it. But for most of his lifetime, fashionable ideas went much further. They included the view that factor markets and financial markets could be replaced by conscious planning, as in war, and that intervention could be made at will, for example, by fixing any and all prices at any level the government chose. The easy rejoinder to Mises is that full-blooded socialism could not be impossible in view



Both thinkers 'combined erudition with a combative, frequently vituperative style of presentation, displaying in their writings little patience with critics'

of the Soviet Union's 74 years of existence. A sympathetic reading of Mises is that he meant that rational calculation was impossible under socialism. What he really tried to disprove was the claim of socialism in its heyday that it would not only be more just, but would also provide at least as high a level of welfare.

Indeed Mises conceded that socialism might work in a very static society, where techniques changed little, so that the discovery function of the price system was unimportant. It might also work for assets not too worried by material prosperity. As for the Soviet economy: it could function as well as it did because it made use of the prices established in western markets. Indeed there was a late book by Stalin urging the comrades to follow the commodity markets more closely.

Eventually, however, revisionist socialists in the west and reform communists in the east embraced prices and markets. In recent decades most students of political economy have been taught not to refute the Mises critique, but to say that socialist economies both need and can have functioning markets and that ownership is irrelevant. The approved answer in a multiple choice question for students devised in the early 1970s in relation to Soviet bloc reform was: "A freely operating market system can perform efficiently the function of allocating scarce resources to satisfy competing wants under socialism as well as under capitalism." This glib approach still governs most of the debate on privatisation.

Why then were the reform communists of the 1970s and 1980s mistaken and why could not effective markets be cre-

ated among largely state-owned industries?

Mises' most convincing answer was the absence of financial markets - including a market in ownership - to determine who should control existing assets and to what uses new savings should be put. It was the absence of any mechanisms for placing ownership and control with those who could make most effective use of the assets at their command, which was probably the fatal blow to reform communism. Hence the present emphasis on privatisation. As Steele says: "Human kind doesn't yet know of any faster way to elicit, transmit and bring to bear this information in a technologically advanced society other than by substantially private ownership of the means of production."

From Marx to Mises is not a perfect book. Its main fault emerges in the preface where Steele writes: "In all essentials this book would be the same if the Soviet debacle had been complete in 1921; or if it had been delayed for another 20 years after 1989." The length of time the USSR existed and the nature of its collapse matter for assessing the importance of the fundamental weaknesses, which no amount of general argument can replace.

By far the best section is that in chapter 10, summarising the modern analysis of property ownership as bundles of rights which may change their composition. Ownership is a matter of degree. Just as restrictions in capitalist countries (for example rent control) may dilute the content of ownership, so *de facto* property rights can emerge in a nominally socialist country, as the managers of enterprises acquire more and more rights, whether legally or otherwise. If Steele had followed up this line of thought he might have reached interesting conclusions on whether, for instance, "nomenklatura capitalism" is better than slow privatisation in the former communist world.

The author's own ending is quite different. It is a call for more rather than less utopian speculation. Although socialism has ineradicable flaws, there may be better conceived alternatives to capitalism. If Marx and his followers had not arrogantly dismissed as "unscientific" all speculation - other than their own - about the society of the future, we could have been spared some misery.

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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## UK industry in jeopardy from regulators

From Sir Ian Wigglesworth.  
Sir, In 1975, 35 per cent of Britain's northern manufacturing employment was in shipbuilding, steel and coal. Today it is less than 3 per cent, and if Swan Hunter and the final round of pit closures go ahead, it will be even less. But the north is still a premier manufacturing region and exports 45 per cent of its GDP. It has world-class businesses in new areas such as semiconductors, automotive products, pharmaceuticals and service industries and has combined traditional strengths with new and sophisticated uses of modern technology in industries such as engineering, steel and chemicals.

One of these world-class businesses - BNL - is being prevented from contributing to the wealth, employment and exports of the region because it cannot begin to undertake the \$9bn of export orders in the Thorp reprocessing plant in Cumbria. The plant, completed at the end of 1989, has still not been authorised to operate - a situation you rightly described as "a nightmare" ("Nuclear scheme that became a 16-year Whitehall night-

mare", May 8).

Most industrial plants - require authorisations from regulatory bodies such as HMIP, MAFF and the NRA which are set after they have been built, but before they can start operation.

If, as has been suggested, these bodies should now also consider the "need" for new plants once they have been constructed, we are on the route to industrial disaster. What responsible board would authorise expenditure on a big new industrial plant if it is to be subject to the double jeop-

ardy - after obtaining planning permission - of facing the possibility of a decision by a whole series of regulators as to whether there is a "need" for it before it can start to operate.

Regulators need to work more closely with industry, not against it. If current laws are stilling business in this way, it is incumbent on the government to change them quickly.

Ian Wigglesworth, chairman, northern region, CBE  
15 Gray Street, Newcastle upon Tyne NE1 6EE

### Limit to tax retaliation

From Mr John L. Wosner.

Sir, You report that the British government is expected to announce retaliation against US companies by cancelling their right to refund of part of the tax credits attaching to dividends paid by UK subsidiaries ("UK poised to retaliate against California tax rules", May 13).

It is worth noting, however, that the UK legislation only applies to those companies based in a state which operates a unitary taxation system or has companies in its group which operate from such states. Those US companies with UK subsidiaries which do not operate in unitary states such as California would not be affected by the proposed retaliation.

John L. Wosner, managing partner, Parnell Kerr Foster, New Garden House, 78 Eton Garden, London EC1

### 'Best guess' of profits better than analysts' estimates

From Mr John Gallini.

Sir, Following the public censure by the stock exchange of London International Group ("Crackdown on private briefings for analysts", May 15), is there any overwhelming reason why companies should not publish a "best guess" profits and earnings per share estimate for the coming year at the time of their preliminary results statement, updated if necessary at their AGM and on publication of their interim results? Only if the company considered that the actual results were likely to differ by more than a given amount (say 10 per cent) from their latest estimate, would they be required to make a statement to the stock exchange. More frequent information would not only help reduce the number of profit warnings made, with the associated stigma and

often devastating effect on share price, but would also ensure that the playing field was seen to be level.

Far from diminishing the role of the analysts, who are after all at liberty to publish their estimates, it would perhaps free them a little from number gazing and allow them to concentrate more fully on areas of concern to investors about which the company itself cannot be expected to be entirely impartial, for example its strategy, competitive position and management quality.

It would also help in placing a realistic value on the shares of the many small companies not covered by analysts' research, perhaps even enhancing the market for them.

John Gallini, 11 North Street, St Leonards-on-Sea, East Sussex TN38 0EY

### Way to avoid surprises

From Mr Stanley Gale.

Sir, The leaking of price sensitive information by companies seeking to avoid surprises by giving guidance to analysts can be avoided by issuing profit statements and relevant comment on a quarterly basis.

The practice, followed by the great majority of UK companies, of reporting twice yearly creates an information gap of about eight months between the announcement of half-year figures and the issue of the preliminary profit statement for the full year. Quarterly reports, issued about mid-way through the following quarter and containing comment on current trading and the outlook, in practical terms virtually eliminate information gaps.

Stanley Gale, Shareholder Relations, Laurence House, 238 City Road, London EC1

### S African authorities must change rules of corporate governance

From Mr George R J Guise and Prof Alan Walters.

Sir, In our Personal View article of August 19, 1992 ("Feather beds in South Africa's boardrooms"), we argued that shareholding arrangements, particularly pyramiding and the ubiquity of *de facto* voteless shares, should be changed so that the great South African conglomerates were subject to the discipline of takeover bids, and that this would be likely to lead to the unbundling of many a bloated corporate structure.

Now we have the first big

unbundling of Gencor which is rightly welcomed in your editorial, "Unbundling" (May 12), as a first step in releasing South Africa's economy from the stranglehold of the few who control the large holding companies. The shareholders of Gencor are the immediate beneficiaries, but the ensuing improvements in efficiency will benefit both workers and customers as well.

But Gencor's unbundling, probably encouraged by a newly enlightened tax regime, occurred in spite of a structure of securities law (and exchange

control) which still allows, even encourages, concentration of management control in few well-sheltered hands. The remaining conglomerate managements can still lie snugly in their feather beds safe behind the barriers to intruders. Indeed, Anglo American has announced that it intended to do precisely that. The Gencor components will still be largely free from threat of takeovers both domestic and foreign.

The South African government and the stock exchange authorities should change the rules of corporate governance

and open all South African industry to domestic, and eventually, through abolition of exchange controls, foreign takeover bids.

Only then will a free competitive South African industry thrive in an open environment and provide the prosperity which its political as well as its economic future depends.

George R J Guise, Alan Walters, vice chairman, AIG Trading Corporation, 1900 15th Street NW, Suite 605, Washington DC 20036

There is a limited amount of exhibitor space available at the conference

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FINANCIAL TIMES CONFERENCES

## MODERNISATION OF TELECOMMUNICATIONS IN CENTRAL AND EASTERN EUROPE

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Berlin, 5 & 6 July 1993

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Central Europe Trust Company Limited

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German Institute for Economic Research (DIW)

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Ericsson Radio Systems AB

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Minister of Posts and Telecommunications of the Russian Federation

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Minister of Post and Telecommunications, Poland

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AT&T SA/NV

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Deutsche Bundespost Telekom

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European Band for Reconstruction and Development

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MODERNISATION OF TELECOMMUNICATIONS IN CENTRAL AND EASTERN EUROPE

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# March gap of \$10.2bn raises fear of commercial tensions with Japan

## US trade deficit rises sharply

By Michael Proulx in Washington

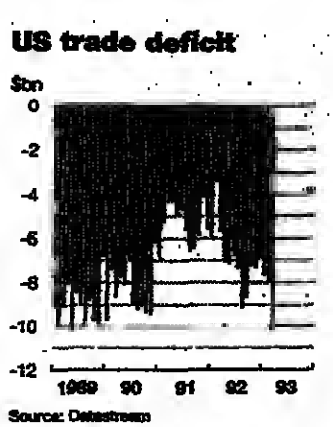
FEARS of increased trade tension between the US and Japan rose yesterday after an unexpectedly sharp rise in the US trade deficit to \$10.2bn in March, the highest shortfall for nearly four years. More than half the deficit was with Japan.

The overall deficit was up nearly 30 per cent from the shortfall of \$7.9bn in February, mainly reflecting a surge in imports.

The deterioration is likely to prompt a sharp downward revision of growth in the first quarter to an annual rate of 1.0 per cent to 1.5 per cent, compared with an initial estimate of 1.8 per cent.

The bilateral deficit with Japan rose to \$5.3bn before seasonal adjustment. The next-largest imbalance was a \$1.5bn deficit with China.

Mr Ron Brown, commerce sec-



US trade deficit

Source: Department of Commerce

structural barriers to improved trade between our nations."

On Tuesday, Mr Lawrence Summers, Treasury undersecretary for international affairs, urged Japan to do more to stimulate its economy. "Its trade surplus continues to grow, and serves as a drag on the rest of the world," he said.

The trade figures were the latest in a series of economic setbacks for the Clinton administration. Reports last week of a jump in consumer and wholesale prices rekindled fears of higher inflation. Speculation this week that the Federal Reserve might soon begin to tighten monetary policy sent long bond yields back above 7 per cent.

Imports rose 9.7 per cent between February and March to \$49.2bn, a record in cash terms. For the first three months, imports were 11 per cent higher than in the same period last year.

As consumer demand was weaker than expected in the first quarter, importers stockpiled goods. Mr Brown said that indicated that import growth would probably decelerate in the current quarter.

The underlying trends, however, are not encouraging. Exports did better than expected in March, rising 3.5 per cent to \$38.9bn. But in the first quarter as a whole, exports rose only 2.4 per cent relative to the same period last year.

Most analysts expect the trade deficit to widen this year, although not at the pace in March, reflecting faster growth in the US than elsewhere. In last month's budget, the trade deficit was projected to rise to \$110bn-\$140bn next fiscal year, against \$84bn in calendar 1992.

By early afternoon the dollar had fallen to ¥110.75 from the previous day's close of ¥111.47.

# Major rules out sterling's early re-entry into ERM

By Ralph Atkins in London

MR JOHN MAJOR yesterday put off indefinitely sterling's re-entry into the European exchange rate mechanism and made clear that Danish approval of Maastricht would not change Britain's stand against monetary union.

Ahead of an expected large revolt by Conservative Tory MPs over the Maastricht treaty today, the UK prime minister said the right conditions for considering ERM re-entry "simply do not exist at the moment and, in my judgment, are unlikely to apply for some time in the future."

At least 30 Conservative MPs will vote against the government tonight when the House of Commons gives the Maastricht treaty its third reading. A similar number of MPs in the opposition Labour party will also vote against.

But the Labour leadership's decision to abstain means the

government should secure passage of the bill with ease. It then goes to the House of Lords.

Mr Major said the prospects of a rapid move towards European economic and monetary union had "drifted away very substantially." He did not rule out the possibility of other countries moving to a single currency without Britain.

His refusal to contemplate Britain's rejoining the ERM cheered Conservative Eurosceptics and came close to endorsing a prediction by Mr Kenneth Clarke, home secretary, that Britain would not re-enter until after the next general election. In practice, any early move would split the cabinet.

Despite euphoria among many European Community leaders at the Danish referendum result, Mr Major's believes that, there is support throughout the EC, including Germany, for wholesale reform of the ERM.

"The ERM, as it was when we left it, is an inadequate instrument that we could not re-enter," Mr Major said on BBC radio. Officials rejected suggestions that the prime minister was implying Britain might never rejoin but said there remained "big problems" with the ERM - although at least it was no longer regarded as a quasi fixed rate system.

Officially, re-entry depends on conditions set by the Treasury on correcting "faultlines" in the ERM and on bringing UK and Germany monetary policies into line.

Although pleased at the Danish referendum result on Maastricht, Mr Major said there would be no British consent for any move towards a centralist or federalist European structure. He singled out for attack the federalist visions of Mr Martin Bangemann, EC vice-president.

Tory life after Maastricht, Page 8

# Head of Siemens in Italy held on bribes charges

By Robert Graham in Rome

MR GIORGIO SCANAVACA, chairman and chief executive of the Italian subsidiary of Siemens, the German electronics group, was arrested by Milan magistrates yesterday on corruption charges.

The arrest of Mr Scanavaca is understood to be in connection with magistrates' broadening inquiry into the payment of bribes to obtain telecommunications contracts.

The Italian subsidiary of Siemens now joins that of Britain's GEC Marconi and Sweden's Ericsson, which last week became involved in the same investigation. The chief executives of these two subsidiaries were arrested on May 12 on similar charges.

It is the first time in Italy's 15-month old corruption scandals, concerning the illicit funding of political parties in return for contracts, that so many foreign companies have been linked in a single line of inquiry. The big contracts in Italian telecommunications have been a major sector where foreign companies have bid for business in recent years.

According to usually reliable leaks from the Milan magistrates, more foreign companies are expected to be involved in the investigation. On Tuesday, the magistrates arrested Mr Davide Giacalone, from 1987-91 the personal assistant of Mr Oscar Mammi, the Republican posts minister. The magistrates have suggested that as much as £40bn (\$26m) has been paid out in bribes during the past five years.

The investigations follow the arrest earlier this month of Mr Giuseppe Farrela, a former managing director of ASST, the state-run telephone services company. Mr Farrela is regarded as having been the principal "collector" of illicit funds on behalf of the main political parties in the posts and telecommunications sector and is understood to be co-operating with magistrates.

His testimony in part led to the involvement at the weekend of Olivetti, the computer and office equipment group, headed by Mr Carlo De Benedetti. On Sunday Mr De Benedetti handed over to Milan magistrates an 11 page deposition in which he detailed illicit payments of £10.02bn in addition to other payments with a combined total close to £30bn - so far the largest known sum handed over to the political parties by a private group in the current scandals.

In another development yesterday, Mr Claudio Burlando, the mayor of Genoa, was arrested on charges of alleged fraud and abuse of office in relation to contracts for the city's celebration of the 500th anniversary of Columbus's discovery of America. Mr Burlando is a member of the Party of the Democratic Left (PDS), the renamed Communists.

His arrest threatens to embarrass the PDS which has been trying to distance itself from involvement in taking bribes.

# Danish tax rates cut after vote

Continued from Page 1

package for eastern Europe before Denmark hands over the presidency to Belgium on July 1.

The Daes approved Maastricht by a margin of 58.8 per cent in favour to 43.2 per cent against, on an 86.2 per cent turnout, reversing the rejection of the treaty in a poll last June.

Mr Rasmussen said the signal from Danish voters was that Europe's political leaders must close the gap that had opened between them and their electorates over Maastricht by adopting pragmatic policies which tackled problems such as unemployment. "We have to be more engaged," he said.

He said the government's economic package would bring the jobless rate down from 12 per cent at present to about 11 per cent in 1994. Marginal income tax rates would be cut from next year to a band of 38 to 58 per cent, compared with 52 to 68 per cent at present.

The tax cuts will eventually be financed by "green" taxes on petrol, electricity, heating, water consumption and, among other things, plastic bags.

# Squatters see EC as capitalist conspiracy

Continued from Page 1

rebo which had their windows smashed.

Hard-core BZers probably number no more than a few hundred, though they may have the sympathy of several thousand more disaffected youngsters in the capital. Between 300 and 500 demonstrators were said to have been involved in Tuesday night's disturbances.

The BZers have been a feature of life in inner city Copenhagen for the past 15 years. They periodically clash with police, sometimes smashing windows in commercial premises in the city centre, but had not previously been involved in violence on the scale of that which erupted on Tuesday.

Last winter they caused serious problems for Swedish police in Malmö, just across the Øresund from Copenhagen, when they staged a counter-protest against Swedish anti-immigrant demonstrators.

The government, led by the Social Democratic party, was appalled that its success in getting Maastricht approved at the second attempt on Tuesday was marred by what were for Den-

mark extremely rare scenes of vicious street violence. It said the rioters were an isolated fringe who deliberately set out to cause trouble.

"That is pure bullshit," scoffed a third BZer, speaking inside the dingy "youth house" under a huge mural saying "Smash Racism and Fascism". In common with his colleagues, he refused to give his name - and spoke fluent and richly profane English.

His friend insisted the riot was spontaneous. "Everyone who voted No was very depressed and angry. We wanted to do something. We wanted to go crazy."

The other inhabitants of Norrebro, a relatively poor but far from deprived area, tended to confirm the government's view that the BZers were a small group who do not represent a wide band of opinion.

An apartment block caretaker said: "There used to be sympathy around here for them because they have no hope of jobs or homes. But when we helped them, with collections of money, they just screwed things up. We have no problems with the local police here. We respect them. I think the people last night came from outside."

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# Saarstahl failure blamed on EC policy

Continued from Page 1

will one day take its responsibilities seriously and ensure equal conditions for all steelmakers. This is clearly not the case as long as Italian and Spanish producers are allowed massive state subsidies."

The statement by Thyssen underlined the deep concern at the heart of the German industry over the crisis, and at the emergency measures being taken to keep weak producers in operation.

The company warned that if both Saarlaut and Klöckner-Werke, the other German steel-

maker, currently seeking a debt write-off with its main creditors, are kept going artificially, it would have "negative consequences on the rest of the industry". Thyssen employs 13,000 workers just in the manufacture of long products, like steel sections, rods and wire, where EC overcapacity is greatest.

It sharply criticised the Saarland government for suggesting that Saarlaut might be kept in operation, which would simply make the restructuring of the European industry more difficult.

The steel manufacturers' federation said the bankruptcy of Saarlaut provided a graphic

illustration of "the total absurdity of European subsidy policy".

In spite of massive public subsidies, the fundamental structural problems of individual enterprises had not been resolved, Mr Ruprecht Vondran, president of the association, said.

David Bachan adds from Paris: Usinor-Saclar said yesterday it would have to take a FF1.4bn loss in its 1993 accounts, representing its losses to subsidiary, which would not now be repaid. At the same time, SP-Adel, the French credit rating agency, said it was downgrading Usinor's commercial paper.

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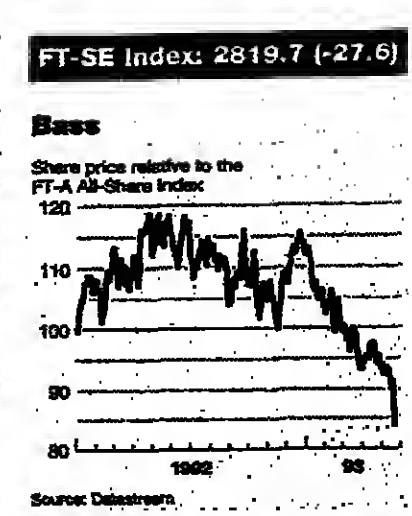
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# Off note from Bass

Bass has a disingenuous way of describing the beer market as subject to increased aggression rather than a price war. But there is no mistaking the gauntlet it threw down yesterday. With its existing market share of around 23 per cent, economies of scale from brewery closures and a balance sheet strong enough to support more free trade loans, the chances are that it will succeed in raising market share where others fail. The real question concerns the cost. Some of that is coming through already.

Bass claims its underlying beer margins rose in the first half, but that is before the £3m increase in the provision for bad debts. After the provision, which must reflect its efforts to win new business, margins fell to 8.7 per cent from 9.3 per cent. That sacrifice has, however, produced a gain in market share of only 0.2 per cent.

Yesterday's 9 per cent fall in the shares may be a step adjustment to a situation where Bass can expect little increase in earnings over the next couple of years while other companies enjoy the recovery. But there are other nagging worries which prevent the shares seeming much of a bargain. These include the sudden need for a further £45m restructuring charge in brewing, the downturn in European hotels, and - an issue the company glossed over yesterday - the weakness in US hotel profits despite higher occupancy and room rates. Since it is on such tricky ground, Bass might do well to reconsider its refusal to split the roles of chairman and chief executive.



FT-SE Index: 2819.7 (-27.6)

Source: Department of Commerce

tion technology and expanding its international coverage. Expertise in the Chinese market is all the rage, it seems.

So far, so useful. Sadly, though, Saatchi still has a poor trading story to tell. Theoretically, advertising should be an early beneficiary of recovery but there is not much sign of it yet. An additional worry is that the Marlboro mayhem seems to have caused brand managers to reassess promotional strategies, creating something of a hiatus in advertising spend. Saatchi's wafer-thin margins provide little leeway should events again turn nasty. Future profits will be drained by £25m of earn-out payments. That provides all the more reason to seek value elsewhere. Gold Greenleafs and WPP seem better poised.

# UK takeovers

Nervous poorly performing companies may be surprised but relieved by the deadly quiet on the UK takeover scene. There is, however, little prey of obvious value in the market. Since devaluation the FT-SE All-Share index has risen by 25 per cent. That figure masks an even stronger performance from recovery shares: the FT-SE Mid 250 index has risen by some 45 per cent. Such increases run well ahead of any likely improvement in corporate earnings over the next 18 months. Economic growth may be sluggish, and much of the easy cost cutting has already been forced on even the weakest managements by the three-year recession. Under the circumstances, it is hard for predators to justify paying hefty premiums for control.

Management psychology has also turned against bids after some scar-

# Compass

It is difficult to avoid the conclusion that, in stock market terms at least, Compass is a business whose moment has gone. The £72m acquisition of SAS's catering arm is an attractive enough deal and will enhance earnings. The trouble is that at this point in the cycle catering looks a trifle dull. Likely earnings growth in single figures and a sub-market yield represent meagre attractions.

Compass must hope that disillusion with the financial constraints facing many recovery stocks will encourage investors to return to its steadier virtues. Such concerns will not be lost on Gardner Merchant as it contemplates its eventual market debut.

# Allied-Lyons

Allied-Lyons must be distressed beyond measure at the publicity surrounding its £200m convertible bond issue. The share price had already fallen before the news inexplicably found its way into the weekend press. It jumped over 2 per cent when no bond emerged with the results on Tuesday morning, though the enthusiasm wore off during the day as the market began to suspect that the issue was looming after all. The price fell sharply again yesterday when it was finally launched. That sort of confusion occurs in a market forced to rely on hint and innuendo. It would have been prevented if Allied had come clean with a formal statement about its intentions. It would have lost nothing by doing so once they had been leaked.

# Saatchi & Saatchi

It is an odd state of affairs when tax considerations provide one of the principal justifications for a rights issue. Yet oddity is something of a speciality for Saatchi & Saatchi and the group's accumulated tax losses represent one of its few financial strengths. The £33m rights issue allows it to exploit them neatly to enhance earnings. Half the proceeds will be used to reduce debt resulting in a smaller interest charge and lower tax rate. About £19m will be spent buying out minority interests in mainland European agencies. This, too, helps tax efficiency. Saatchi will spend the rest improving service levels, upgrading its informa-

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World Weather		°C	°F	°C	°F	°C	°F	°C	°F	°C	°F										
		Boulogne	S	14	57	Frankfurt	F	22	72	Malaysia	F	21	70	Oporto	R	18	64	Tenerife	C	20	68
		Buenos Aires	S	17	63	Geneva	S	20	68	Moscow	S	21	70	Oslo	S	22	72	Tokyo	S	25	77
		Calcutta	F	29	84	Hong Kong	S	25	77	Paris	S	24	75	Perth	F	13	54	Toronto	T	R	48
		Cairo	S	29	84	Helsinki	S	25	77	Marseille	C	35	95	Peking	S	27	81	Toronto	T	R	73
		Cape Town	F	17	63	Hong Kong	S	25	77	McMurray	S	17	63	Riyadh	R	10	50	Valencia	G	24	75
		Cebu	F	29	84	Hong Kong	S	25	77	Red Sea City	S	26	78	Sao Paulo	R	24	75	Warsaw	S	27	81
		Chennai	F	33	91	Chennai	F	19	66	San Francisco	S	24	75	Seoul	F	27	81	Washington	G	14	57
		Chicago	F	17	63	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Colombo	F	29	84	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Copenhagen	F	17	63	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Dallas	F	14	57	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Darwin	F	29	84	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Delhi	F	29	84	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Dubai	F	29	84	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Edinburgh	F	11	52	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Geneva	S	20	68	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Hong Kong	S	25	77	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		London	S	15	59	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Los Angeles	F	14	57	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Lyon	S	15	59	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Mannheim	S	20	68	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Mexico City	S	25	77	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Montreal	F	12	54	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Nairobi	S	22	72	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Rangoon	S	27	81	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
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		Sydney	S	19	66	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Taipei	F	22	72	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Tokyo	S	22	72	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73
		Yokohama	S	22	72	Chennai	F	19	66	Shanghai	S	26	78	Singapore	S	24	75	Winnipeg	F	23	73

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**INSIDE**  
**Woolworths launches AS2.45bn flotation**

Paul Simons (left), chairman of Woolworths, the Australian retailing group, yesterday launched its long-awaited flotation, with forecasts of continued strong earnings and sales growth, against the national retailing trend. Next month's share sale will be the country's biggest corporate flotation, seeking up to AS2.45bn (US\$1.69bn) without an underwriter. One billion shares will be offered at a price between AS2.15 and AS2.45, to be determined by an institutional tendering process. Page 18

**Campbell Soup rises 19 per cent**

Campbell Soup has lifted third-quarter profits 19 per cent to \$108.5m after tax. The US foods group increased its sales by 8 per cent to \$1.63bn, during the three months to May 2, mostly due to the first-time consolidation of Campbell's 58 per cent stake in Amotts, the Australian biscuit company. Page 17

**Frustration at Minorco**

Hank Slack (left), chief executive of Minorco, wants to turn the company into one of the world's biggest mining groups. But so far his plans have been frustrated. Two planned acquisitions worth a total of US\$1bn have slipped through his hands and shares in Minorco, until 1988 a sleepy offshore investment arm of the Anglo American Corporation at a 30 to 40 per cent discount to asset values. Page 17

**Allied-Lyons launches issue**

Allied-Lyons yesterday launched its £200m (\$300m) convertible bonds issue, news of which was leaked last weekend and led to three days of see-sawing share prices. Financial advisers to the drinks, food and retailing group, were yesterday discussing the leakage with the stock exchange. The company said decisions about possible action would be made after the talks. Page 20

**Golden future for volcano**

About 42m troy ounces of gold, the world's biggest undeveloped deposit, lies submerged beneath very hot water in the crater of a dead volcano at Lby Island in Papua New Guinea. Plans to extract it received a boost yesterday. Page 24

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**Chief price changes yesterday**

FRANKFURT (DM)			LONDON (Pence)		
Rhine	719	+ 17	Wolfsberg	764	+ 15
Wella Pst	500	+ 20	Argo Interbank	581	- 12
Wella	450	+ 17.5	Chf Res	356	+ 5
Polio Pst	500	+ 20	Courtesy	125	+ 4
Douglas Hld	450	+ 17.5	Grady Ship A	125	+ 4
Hertz	325	+ 5	Hammerson A	57	+ 11
Schering	708.5	+ 14	Hedge	143	+ 35
Volvo-West	334	+ 8	Overseas Tech	143	+ 35
NEW YORK (\$)			Overseas Tech	143	+ 35
Alcoa	85	+ 3	Procter	236	+ 43
Microfilm	904	+ 2	Transit Tech	247	+ 58
Pharm	424	+ 3			
Crystall	511	+ 21			
Ford Motor	38	+ 7			
General Motors	101	+ 1			
Hammerson Bldg					
PARIS (FFr)					

**Deutsche Bank makes firm start to year**

By David Waller in Frankfurt

TOTAL operating profits at the Deutsche Bank group rose by "a good 20 per cent" in the first four months of the year against the comparable period for 1992, the chief executive of Germany's biggest bank told shareholders yesterday.

Mr Hilmar Kopper said at Deutsche Bank's annual meeting that it was unrealistic to expect this level of growth to be maintained throughout the year as a whole. Last year, the bank's total operating profits rose by 7 per cent to DM9.39bn (\$3.96bn).

But he said that the result for the year would be satisfactory, given the sharp recession in the German economy. He warned that provisions for bad and doubtful debts would have to be on the same scale as last year, when they reached DM2.8bn.

Deutsche gave no figures, but the percentage increases are calculated with reference to a third of the total figure last year, rather than the actual profits made in the first four months of last year. Thus total operating profits in the first four months of the current year were in the region of DM2.55bn, up about 16 per cent from the actual figure for the first third of 1992.

Deutsche is the third of Germany's big three banks to report excellent growth in operating profits in the early months of the current year. Commerzbank improved its profits by more than 25 per cent in the period from January to March and Dresdner Bank by 15 per cent in the first four months.

These profit increases provide a slightly unrealistic picture of German banks' prosperity as they are calculated before provisions which are set to rise steeply over the course of the current year, reflecting deteriorating credit risks in recession-struck Germany.

As at other large German banks that have reported strong growth in profits for the early months of the current year, the bulk of the gain at Deutsche Bank came from own-account trading activities, stimulated by buoyant conditions in bond and equity markets earlier in the year.

Growth in net interest income was more subdued.

Own-account trading profits rose by 32 per cent, Mr Kopper said, and commission income climbed by 13 per cent, while net interest income rose 6 per cent.

**Rivals bid for stake in Belgian bank**

By Andrew Hill in Brussels

FORTIS, the Dutch-Belgian financial services group, and Générale de Banque, Belgium's largest bank, are to fight it out for a stake in the Belgian state-owned savings bank, ASLK-CGER, in the first round of a four-year BF70bn (\$2bn) Belgian privatisation programme.

The sale of up to 49 per cent of ASLK-CGER, which has a network of bank and insurance branches, could raise as much as BF733bn for the government and help reduce its budget deficit.

Mr Philippe Maystadt, the Belgian finance minister, has also indicated that a bid for a majority stake in ASLK-CGER would be considered, although Belgian legislation would have to be altered to allow the state to give up control.

The deadline for submitting "indicative non-binding" offers for ASLK-CGER closed yesterday afternoon.

Both Fortis - which groups the activities of the Belgian insurer AG and the Dutch group Amey - and Générale de Banque confirmed they had bid. They refused to give further details or indicate whether they had bid for a majority or minority stake.

Internationale Nederlanden Groep, the Dutch financial services group which last year considered bidding for Banque Bruxelles Lambert, another leading Belgian bank, will not be making an offer for ASLK-CGER. ING paid the required BF2.5m to examine the ASLK-CGER prospectus but decided the group would not fit into its strategy.

Until recently Générale de Banque and Fortis were considering linking up with one another to develop "necessaire" activities in Belgium, but they fell out over the terms of co-operation and Fortis sold most of its 14.7 per cent stake in the bank a month ago.

It was not clear yesterday whether other bids had been submitted.

ASLK-CGER, which is being advised by PricewaterhouseCoopers, will now consider the bids and submit its decision for approval by the government before the summer. Fortis said it hoped the sale could be concluded by the end of the year.

Separately, Nederlandse Nationale investeringbank, a Dutch state-controlled bank, said it had sought information about the privatisation of two other Belgian savings institutions, NIM-SNT and NMKN-SNCL.

**Compass to acquire catering from SAS**

By Richard Gourlay in London

COMPASS GROUP, the UK healthcare and catering company, is to move into continental Europe through the acquisition of the airport restaurant and contract catering business of SAS Service Partner, the subsidiary of the Swedish airline.

The £71.9m (\$110.72m) purchase price is to be funded through a six for 19 rights issue at 420p. The rights issue will raise £68.8m.

The acquisition will give Compass a presence in eight mainly northern European countries, and 34 airports. It will also provide an entry into the fragmented continental contract catering business, although most of the SAS contracts are in Scandinavia or in the off-shore sector where growth prospects are limited in the short term.

UK analysts have recently been concerned that Compass has been better at improving margins through tight purchasing than increasing sales.

But the London stock market reacted enthusiastically yesterday - the shares rose to 528p.

Compass also reported an increase in pre-tax profits from £17m to £18.2m for the six months to end March on sales up 18.6 per cent at £208.4m. Earnings per share rose from 16.8p to 18p and the group is to pay a 4.4p interim dividend, up 6 per cent.

The board forecast a final dividend of not less than 8.58p which, if paid, would mean a 5.7 per cent increase over 1992.

Mr Francis Mackay, chief executive, said the catering division had performed well with operating profits rising 8 per cent to £14.6m.

Background, Page 20; Lex, Page 14

**Nicholas Denton reports on the need for a recapitalisation**  
**The hole at Hungary's banking heart**

Behind the World Bank and International Monetary Fund's belief that Hungary's big banks need rescuing are some compelling facts.

The capital of the two biggest banks - Magyar Hitel Bank and Kereskedelmi Bank - is wiped out when international accounting standards are applied to their bad loans. Economic output has fallen 18 per cent in the last three years. The disappearance of demand from former Comecon countries has worsened the recession, hitting hardest the socialist industrial giants like Karus, Taurus, Videoton and Borsodchem which make up the rotten core of Hitel Bank's clientele.

In 1991 parliament passed strict new laws on bankruptcy, causing about a tenth of companies to go into liquidation or file for protection from creditors; and on financial institutions, giving banks the incentive to recognise bad debts.

The banking sector's loans classified as bad, doubtful or substandard rose to FT252m (\$2.9bn) - 17 per cent of all loans and 10 per cent of GDP - in September 1992. Hitel Bank says its non-performing loans tripled from FT25bn in December 1991 to FT78bn at the peak last year.

The result has been a sharp credit crunch. Banks, faced with the need to make huge provisions, have charged high real interest rates to maintain margins and produce paper operating profits estimated at FT38.7bn for the whole sector in 1992. The average interest rate on short-term corporate loans was 28.2 per cent at the end of 1992, compared with inflation of 21.6 per cent over the year.

The cost of borrowing has pushed bad risks to the wall and good risks abroad - or, like Nestlé, McDonalds and other western investors in Hungary, directly to the capital markets.

Made cautious by defaults, banks slightly reduced their outstanding credit to enterprises in 1992, a sharp fall in real terms. "A prudent policy today means extreme conservatism," says Mr Gyorgy Ivanyi, president of Inter-Europa Bank. The World Bank study concludes that "the financial system is unable to finance the transformation to a market economy."

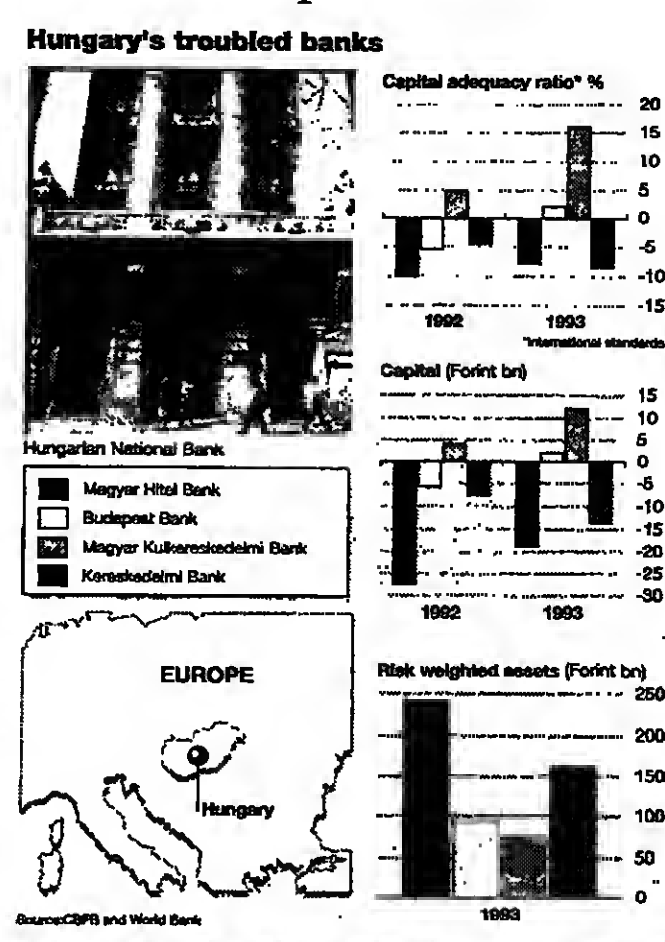
A one-off recapitalisation is widely seen as essential. Economic recovery is still feeble and loan portfolios are deteriorating. Weaker banks are losing their better clients to stronger ones. Mr Szalkai admits that Hitel Bank is at a "threshold" from which it could spiral downwards. Recapitalisation must also put the banking sector into condition for privatisation before more of the potential acquirers lose patience and set up local subsidiaries from scratch.

An injection of funds, however, would allow bank managers to escape the consequence of past errors. Magyar Hitel Bank, Kereskedelmi Bank and Budapest Bank inherited a portfolio of loans made under communist logic when lifted off from the National Bank of Hungary in 1987. Since then, managers have been responsible for their own decisions - and some of them have proved painful.

Hitel Bank, for instance, has paid the price of a focus on lending to start-up businesses. The policy has won popularity, but the losses have been heavy. Mr Szalkai says that the default rate for new business is as high as on the old, communist-inspired loans.

Kontrax, one of Hungary's largest domestic private groups, only this month declared bankruptcy owing FT4.2bn to Hitel Bank and other creditors. Hitel Bank has also been reluctant to reduce exposure to inherited shaky borrowers for fear of pushing them into bankruptcy. "In creditors' meetings Hitel Bank is always there," says a banker.

In contrast, Budapest Bank has pulled away from the other two commercial banks. Under Mr Lajos Bokros, managing director, Budapest Bank's capital has improved as a proportion of



**Saatchi surprises City with rights issue to raise £73m**

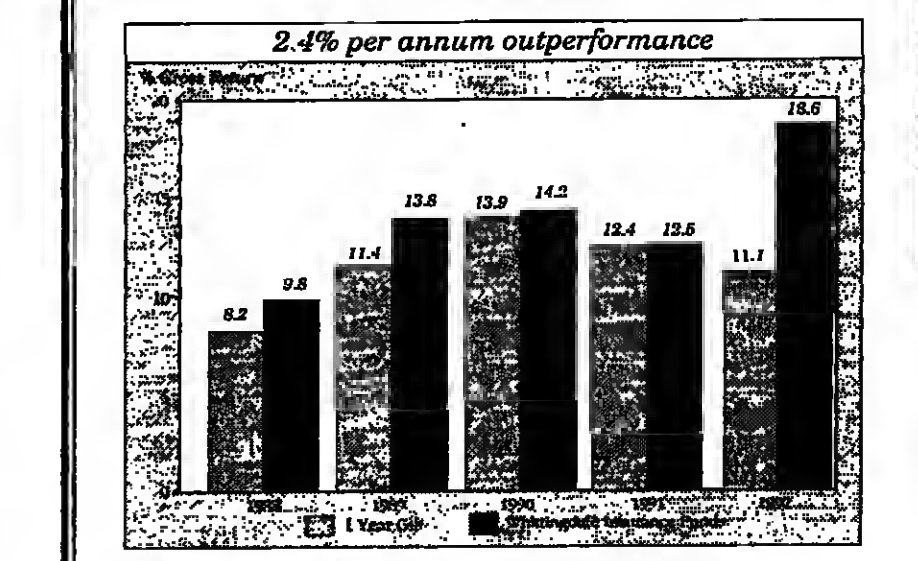
By Gary Mead, Marketing Correspondent

SAATCHI and Saatchi, the world's fourth largest advertising group, yesterday sprang a £73m (\$112.42m) rights issue on the City.

Shareholders are asked to pay 130p, a 24 per cent discount to Tuesday's closing price of 172p, on the basis of 10 new shares for every 27 held.

About £38.5m of the cash will be used to reduce bank debt (average net debt was £192m in December 1992). £19m will be used to acquire minority interests in European advertising subsidiaries. £10.5m will be used to strengthen media buying businesses and to develop businesses in growing markets in Asia, Latin America and east Europe. £7m will be used to acquire new

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**Bass falls 14% as hotels suffer**

By Philip Rawstone in London

BASS, the UK brewing and hotels group, reported a 14 per cent decline in first half pre-tax profits as Holiday Inns in continental Europe were affected by growing recession and the UK brewing business increased provisions for bad debts.

Profits for the six months to April 10 fell from £268m to £228m (\$351.12m) - the market responded by taking 50p from the shares which closed at 483p.

Mr Ian Prosser, chairman and chief executive, said UK sales trends in the past few weeks suggested that the economy was finally stirring. "But we do not expect any recovery will be fast, and so expect limited benefit from it in the second half of our trading year."

Group operating profits slipped from £285m to £268m on turnover 2 per cent higher at £2.3bn.

Brewing profits were 5.2 per cent lower at £73m, after bad debt provisions were increased from £10m to £19m. Beer volumes were marginally higher, despite the group's disposal of 872 pubs. Overall market share rose 0.2 percentage points.

Rationalisation savings helped ease the pressure from competitive discounting but, after the bad debt provisions, margins declined from 8.3 per cent to 8.7 per cent.

Pub profits, reflecting the reduction in outlets, fell 11 per cent to £98m on turnover 2 per cent lower at £268m. Capital spending of £48m was slightly lower.

Holiday Inn profits dropped from £54m to £50m on turnover



## INTERNATIONAL COMPANIES AND FINANCE

## Swiss judge freezes two KIO bank accounts

By Peter Bruce in Madrid

TWO SWISS BANK accounts belonging to the Kuwait Investment Office (KIO), the overseas investment arm of the Kuwaiti finance ministry, have been frozen by a Geneva judge following a petition by the Italian cardboard producer, Sarrio.

The attachment of the accounts is a significant victory for Sarrio, which is suing the KIO in Spain for non-payment of part of the price of assets sold to the KIO's Spanish subsidiary, Grupo Torres (GT), in 1991.

The Italians accepted shares in Torres Papel, a GT subsidiary, as partial payment for their Spanish paper interests, with the agreement that these shares could be "put" back to

GT in three instalments.

The Kuwaitis paid the first instalment but new managers, who took over the KIO last May, have not, says Sarrio, made the second and third payment. GT is in receivership.

Sarrio applied for, and won, an attachment order in Switzerland on May 11. The accounts affected are at Lombard Odier, the private bank, and the Swiss Kuwaiti Bank.

It is not known how much money is now in the accounts. Sarrio is trying to retrieve SF112m (\$76.7m) and the KIO is likely to ask that at least one of the accounts be unfrozen in the meantime.

The move by Sarrio could pose a serious threat to the Kuwaitis, however. If Sarrio is allowed to retrieve the money

it wants from one or other of the accounts it might create a judicial precedent and allow other GT creditors to make claims directly from the KIO.

The KIO's lawyers are understood to feel the retrieval attempt will fail, however. The KIO claims it is merely a shareholder, and not the owner, of GT.

Corporacion Banesto, the industrial holding owned by the Spain's Banesto banking group, reported first-quarter pre-tax profits of Pta147m (\$1.8bn), against a Pta4.8bn loss in the same period of 1992.

The holding said turnover was down 30 per cent to Pta99.8bn and that the sharp turnaround was in part due to lowered debt servicing costs.

## EniChem's big losses hit Snam results

By Haig Simonian in Milan

SNAM, the gas distribution subsidiary of Italy's Eni energy and chemicals holding company, suffered a steep drop in net profits to L138bn (\$80.79m) last year from L638bn in 1991.

As with Agip, the Eni-controlled upstream oil and gas group which reported a sharp earnings decline last week, Snam's profits were pulled down by impact of the steep losses at EniChem, Eni's chemicals subsidiary.

EniChem, in which Snam and Agip have substantial stakes through the Sci holding company, recently reported losses of L1,560bn for 1992, more than double the amount lost the previous year.

Snam, which is on the Italian government's privatisation list, also blamed its profits drop on continuing losses in the mining and metallurgy businesses.

Group turnover fell slightly to L10,807bn from L11,244bn in 1991, with a slight decline in sales of natural gas to 48.1bn cu metres.

Operating profits rose by 8.9 per cent to L2,200bn.

## Ahold acquires Portuguese store chain

AHOLD, the Dutch supermarket group, yesterday bolstered its position in Portugal through the planned acquisition of a 45-store supermarket chain with its Portuguese joint-venture partner, Jeronimo Martins, writes Ronald van de Krol in Amsterdam.

The supermarkets, which operate under the names Modelo and Saco Celo and which will be acquired from Sonae Distribucio, have annual sales equivalent to F1330m (\$183m).

They will be integrated with Jeronimo Martins' main existing supermarket chain, Pingo Doce, which currently has 40 stores.

## Uni Storebrand back in the black

By Karen Fosli in Oslo

UNI STOREBRAND, Norway's largest insurer, yesterday reported a first-quarter profit, before allocations, of Nkr150m (\$21.8m), compared with a pro-forma loss of Nkr151m in the same period last year.

The group, which is producing quarterly results for the first time, says its expects a good result for 1993 as a whole.

The figures reflect consolidated results of Uni Storebrand, which is under public administration, and Uni Storebrand New, which was established following Uni's collapse last August.

Mr Per Terje Vold, chief executive, attributed the improved performance mainly to substantial gains on securi-

ties and lower interest rates.

First-quarter net operating income for Uni Storebrand New was Nkr5.88bn. No comparative pro-forma Uni New figures were given. Uni New posted a first-quarter profit, before allocations, of Nkr209m.

Uni did, however, give comparative pro-forma 1992 figures for individual business units.

Life insurance business doubled first-quarter profit to Nkr1.04bn from a pro-forma Nkr512m, in spite of a fall in market share of 1.9 percentage points to 32.8 per cent. Premium income in the first quarter fell to Nkr1.48bn from a pro-forma Nkr1.83bn.

Non-life business posted a first-quarter profit of Nkr87m against a pro-forma loss of Nkr110m. Uni said this year's

figure included a charge of Nkr121m related to claims. Premium income rose to Nkr1.78bn from Nkr1.67bn.

The stronger result is mostly due to a transfer of Nkr106.7m in surplus reserves.

International business lifted profit to Nkr31m from a pro-forma Nkr21m. Premium income remained at last year's level of Nkr1bn.

Mr Vold said the international unit was undergoing a restructuring in which the scope of business would focus on reinsurance.

Kansallis-Osake-Pankki, Finland's leading commercial bank, yesterday launched a FM300m (\$54m) perpetual subordinated bond issue in the domestic market to help strengthen its capital base.

The move is part of a broader plan to raise FM2bn in Tier Two capital on the domestic and international markets in the next few years, following the bank's recent successful FM1bn rights issue. Like other Finnish banks, KOP has suffered heavy losses and its capital adequacy ratio has been badly eroded.

The subordinated bonds are the first perpetuals to be issued by KOP. The coupon is 1.4 per cent above 6-month Heibor for the first five years, 1.80 per cent above 6-month Heibor for the next five years, and 2.4 per cent above 6-month Heibor in subsequent years.

The issue price is 100 per cent and the subscription period runs from May 28 to June 24.

## Chinese group buys HK stake

By Simon Davies in Hong Kong

CHINESE steel company Shougang has taken a 74 per cent stake in a fourth Hong Kong listed company, Kader Investment, for HK\$582m (\$575.3m), despite last week's tougher stance on back-door listings by Hong Kong's regulators.

Following the acquisition, Mr Deng Zhifang, son of Chinese paramount leader Deng Xiaoping, will join the Hong Kong company's board of directors, underlining the high profile role China is now taking in its future sovereign ter-

ritory. Since the October announcement that Beijing would list nine mainland-registered companies on the Hong Kong stock market, there has been an explosion in the number of Chinese companies taking an easier route, through back-door listings.

In the eight months these nine mainland companies have struggled to resolve legal and corporate obstacles to their Hong Kong flotations, Chinese entities have taken stakes of more than 25 per cent in 12 listed companies.

The stock exchange said last week it was clamping down on companies circum-

venting listing regulations by purchasing shell companies and injecting in privately-held assets.

Shougang said that it would neither sell any "material" assets to Kader, nor change its focus from property investment.

Only days before the stock exchange decision, Shougang had announced a HK\$1.8bn rights issue by another newly-acquired subsidiary, Tung Wing Steel.

The Kader stake was purchased from the Ting family and the family's toy manufacturing company Kader Holdings.

## Singer in China hire-purchase venture

By Simon Davies

ALMOST a century and a half after it pioneered the hire-purchase system in the US, the Singer sewing machine group is to try the same idea in China's booming retail market.

Singer Credit, a company jointly owned by Singer and its Hong Kong-listed parent Semi-Tech (Global), has formed a hire-purchase joint venture

company with China's largest savings bank, the Industrial & Commercial Bank of China (ICBC).

The primary focus of Singer Trust & Credit (Shanghai) will be to develop sales for Singer's growing retail network in China, rather than to become a profitable business in itself. Singer will have opened 12 retail outlets in China by the end of this year.

Mr Shen Ruo Lei, president of the Shanghai Branch of ICBC, who attended yesterday's signing ceremony, said: "This joint venture company is the first of this type [in China] and will become the forerunner of the hire purchase business in China."

Consumer spending in China has been rising steeply, with retail sales up 25.4 per cent year-on-year in April.

## Exchanges study services merger

By Ronald van de Krol in Amsterdam

THE AMSTERDAM Stock Exchange and the European Options Exchange (EOE) in Amsterdam plan to ask a consultancy firm to investigate a merger of their off-floor support services.

Coopers and Lybrand Management Consultants will report on the findings in the autumn. The support services to be investigated will include legal advice, financial administration and accounting.

The exchanges, which are eager to cut costs to remain competitive within Europe, established a joint executive committee in 1991 to look into closer links. Reports appeared in the Dutch press recently saying that the bourse and the options exchange might be planning a full merger. Spokesmen for both sides, however, have played down the suggestion, saying it was premature.

Both exchanges are preparing for changes prompted by the dual necessity of reducing costs and bolstering competitiveness with rival exchanges in Europe.

The EOE plans to alter its trading system to combine traditional open-outcry floor trading with a new computer screen option.

The stock exchange plans to split the wholesale and retail segments of the market.

The stock exchange in particular is concerned about the loss of business to London where Dutch government bonds and, increasingly, Dutch shares are traded.

## Dobson Park sells tool business

By Peggy Holtinger in London

DOBSON Park Industries, the UK mining equipment and industrial group, is withdrawing from the highly-competitive power tool industry with the sale for £7.5m (\$12m) of its loss-making demolition hammer operation, Kango.

The supermarkets, which operate under the names Modelo and Saco Celo and which will be acquired from Sonae Distribucio, have annual sales equivalent to F1330m (\$183m). They will be integrated with Jeronimo Martins' main existing supermarket chain, Pingo Doce, which currently has 40 stores.

chairman, said the group had decided it could not compete against international giants such as Bosch of Germany.

"The scale of the people we were trying to compete with makes it difficult to keep up with the technology," he said. "Kango's potential will best be realised as part of a larger group within the power tools business."

Kango, which just four years ago returned pre-interest profits of £2.5m, has suffered from the sharp downturn in the global construction industry. Last year, it incurred losses of £500,000.

Dobson has been under pressure in other areas of its busi-

ness and recently agreed to put its mining equipment division into a joint venture with a main rival to weather the UK coal crisis.

For Atlas Copco, Europe's largest air compressor manufacturer, Kango represents another step towards its goal of increasing its presence in electric tools. Last year, Atlas purchased AEG Elektrowerkzeuge, a German manufacturer of electric hand-held tools.

Kango claims between 25 and 30 per cent of the UK light demolition hammer market.

Dobson will receive £6.5m in cash upon completion, with the remaining £1.3m payable within one year.

## Santander faces fresh tax inquiry

By Tom Burns in Madrid

BANCO SANTANDER, the Spanish banking group, faces renewed investigations over a tax avoidance scheme it allegedly pioneered, and has been ordered to put up Pta3.5m (\$28.6m) as surety against possible fraud charges by the senior judge of Madrid's monetary court.

The fresh embarrassment for Santander coincides with its launch of £195m preferential shares issue in the US. This is the fourth such issue in 18 months and completes a programme which will have raised a total of \$750m for the group.

The ruling by a senior judge of Madrid's monetary court reverses a decision taken in January when the court revoked a original Ptasbn bond order against the bank in connection with the same charges. Santander said yesterday it would deposit the bond but would appeal against the new ruling.

In January, the court accepted Santander's appeal that the bank could not be investigated over possible irregularities unless prior charges were brought against persons who had sought to avoid taxes by using the bank's services.

These Securities having been sold, this announcement appears as a matter of record only.

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March 1993

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On the order of the State Property Agency CONSORG Kft. is holding for sale the shares owned by the State in OROSZÁZA FOOD Rt. created by the transformation of Oroszázai Baromifutár Vállalat.

The company is involved in poultry processing, cutting, and the distribution and retail sale of its products. The sales of the company in 1992 totalled Huf 2 billion, approx. half of which came from exports. Its share in the slaughtered poultry market is 7%, in the goose liver market it is 10%, and in the meat market it is 5.5%.

The deadline for the filing of offers is 21st June, 1993.

The precondition of the filing of offers is the purchase of the tender invitation containing the detailed procedure and of the information booklet on the activities of OROSZÁZA FOOD Rt. They are available at the office of CONSORG Kft., for the depositing of the declaration of their confidential treatment. Further information shall be provided at the same location.

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Notice is hereby given that the Rate of Interest for the "Series A Notes" Coupon No. 1 has been fixed at 2.925% and that the interest payable will amount to Yen 1,811,250. The Rate of Interest for the "Series B Notes" Coupon No. 3 has been fixed at 3.1625% and the interest payable will amount to Yen 1,633,966. Both Series A Notes and Series B Notes will be payable on the relevant Interest Payment Date November 22, 1993 in respect of Yen 10,000,000 nominal of the Notes.

May 20, 1993 London

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INTERNATIONAL COMPANIES AND FINANCE

## GTE sells telecoms lines to utilities group for \$1bn

By Nikki Tait in New York

GTE, the largest local US telephone company, yesterday announced plans to sell approximately 500,000 access lines in a total of nine states, to Citizens Utilities, a diversified utilities group based in Connecticut, for \$1.1bn in cash.

The deal is part of GTE's previously-announced strategy of trading or selling domestic local-exchange properties. Last December, the telephone company said that "as a logical step following this merger with Centel", it planned to discard a small percentage of these properties, allowing it to concentrate on core markets.

At that stage, GTE said it

planned to sell less than 5 per cent of its domestic access-line base, which then comprised more than 18m lines.

The deal announced yesterday involves all of GTE's local-exchange properties in Arizona, Montana, New York, Tennessee, Utah and West Virginia. It also includes a portion of GTE's interests in California (less than 1 per cent of the access lines there), Idaho (about 14 per cent) and Oregon (less than 2 per cent). It is subject to various regulatory approvals, and the transaction is unlikely to be fully completed until 1994.

GTE shares dipped 3/4 to \$34 1/2 before the close yesterday, while Citizens Utilities

"E" shares were down by 3/4 to \$35 1/2.

Citizens, which like GTE is based in Stamford, supplies electric, gas, water, and telecommunications services to customers in 13 states. Telecommunications have accounted for about one-third of the group's revenues to date, and the utility currently operates all-digital local-exchange carriers in Arizona, California and Pennsylvania.

"Two-and-a-half years ago, we told Citizens' shareholders that we planned to double the size of the company by 1994," said Mr Leonard Tow, Citizens' chairman. "This transaction goes a long way to meeting that goal."

## Mitel posts best profit for quarter in 11 years

By Bernard Simon in Toronto

MITEL, the Canadian telephone equipment maker, has posted its best quarterly profit in 11 years. The result raises a question mark over the timing of British Telecom's sale last June of its controlling stake in the Ottawa-based company.

Mitel's improved performance is also reflected in a surging share price. Its stock was trading at C\$4.40 on the Toronto exchange before the close yesterday, more than double the maximum of C\$1.64 per share which BT realised from the sale of its 51 per cent stake.

Net earnings for the fiscal year to March 26 were C\$2.6m (US\$2.06m), equal to a loss of 1 cent per common share, compared with a loss of C\$5.7m, or 12 cents, the previous year. Sales rose by 4 per cent to C\$423.4m.

Fourth-quarter earnings, however, were C\$11.9m. The improvement was partly due to favourable exchange rate movements and a C\$3.5m research grant from the Canadian government.

Mr John Millard, president, cautioned that the fourth-quarter performance was unlikely to be repeated in the first half of this year.

However, the company said that US sales of office switchboards had picked up, and that its semi-conductor revenues had also risen sharply.

A recent C\$52m share issue has strengthened its balance sheet, leaving it with long-term debt of only C\$26m. BT suffered a loss of at least C\$255m on its seven-year investment in Mitel.

## Chemical wins debt trade approval

By Patrick Harverson in New York

CHEMICAL Banking has received permission from the Federal Reserve to underwrite and sell corporate bonds through its securities arm.

It is the fifth leading US commercial bank to be granted debt underwriting powers, after J.P. Morgan, Citicorp, Bankers Trust and Chase Manhattan. Several big foreign banks have also been allowed into the business, including Union Bank of Switzerland and Industrial Bank of Japan.

Traditionally, the commercial banking and securities businesses have been kept apart in the US. In recent years, however, the Fed has exploited loopholes in the Glass Steagall Act, the depression-era legislation that enshrined the separateness of banking and securities business, to allow a few well-capitalised banks to operate in the corporate debt markets.

However, the banks are not allowed to derive more than 10 per cent of gross revenues from underwriting and dealing in certain corporate debt securities for two years.

Chemical hopes to build a

presence in the corporate debt market to go alongside its dominant presence in the bank loan market. It has already arranged \$33bn of loans this year, making it by far the biggest lender among US banks.

Initially, the bank, through its Chemical Securities subsidiary, will concentrate on selling high-yield debt, where the underwriting fees are higher than on investment-grade debt. Because of its dominant share of the bank loan market, Chemical believes it has a large client base among likely issuers of junk bonds.

The Fed's decision was not

unexpected. After last year's merger with Manufacturers Hanover, Chemical became the third-largest US bank, with consolidated assets of \$147.5bn, and has one of the strongest capital bases in the industry.

Although Chemical had begun to hire staff with experience in the debt markets in anticipation of Fed approval, the bank is expected to hire some traders and bankers who specialise in junk bonds. The main task facing the bank is to assemble a sales force to distribute the corporate bonds it underwrites to institutional investors.

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## Campbell advances to \$108.5m

By Nikki Tait

CAMPBELL SOUP, the US food group, yesterday reported a rise in after-tax profits to \$108.5m in the third quarter to May 2, from \$91.5m a year earlier.

Sales during the three months rose by 6 per cent, to \$1.63bn, mostly due to the first-time consolidation of Campbell's ownership interest in Arnot's, the Australian biscuit company in which the US group has a 58 per cent stake.

At the earnings per share level, this profit advance translated into a 19 per cent rise, to 43 cents.

On a divisional basis, Camp-

bell said operating profits in its North and South American divisions rose by 10 per cent, to \$172.6m. In Europe and Asia, there was a 14 per cent advance, to \$9m.

In the biscuit and bakery division, the inclusion of the Arnot's results lifted profits by 47 per cent to \$23.5m - but Campbell said that, without Arnot's, there would have been a 6 per cent decline due to certain start-up and new product costs.

Campbell increased its stake in Arnot's to 58 per cent earlier this year after a bitterly-contested takeover battle, although it still lacks board control.

The third-quarter figures bring after-tax profits for the first nine months to \$149.2m, compared with \$81.3m a year earlier, or 59 cents a share compared with \$1.51.

However, the current-year figures are struck after significant restructuring charges taken in the second quarter. Campbell said that without these items, net earnings for the first nine months were up by 15 per cent.

Campbell announced in the second quarter that it was closing two domestic frozen food plants and selling a number of unspecified businesses. These moves resulted in the \$300m after-tax charge.

## Horrigan joins Liggett Group

By Nikki Tait

MR EDWARD Horrigan, who headed the large tobacco business at R.J.R. Nabisco and was vice-chairman of the parent company ahead of the \$25bn leveraged buy-out of the company in 1989, is re-entering the cigarette business.

The Liggett Group, now the smallest of the leading US cigarette manufacturers, whose brands include Chesterfield, Lark and Eve, announced yesterday that Mr Horrigan had been appointed chairman and chief executive, with effect from May 24.

Mr Horrigan - whose board positions include a directorship at USAir - quit R.J.R. shortly

after the Kohlberg, Kravis Roberts-led leveraged buy-out of R.J.R. Nabisco.

According to *Barbarian at the Gate*, the best-selling book on the bid battle, Mr Horrigan demanded to either be chief executive of the company, or part company. He reportedly left with a \$45.7m golden handshake, and acquired a candy business in Atlanta.

Liggett, part of Brooke Group, has faced troubled times recently, with declining profits and falling market share. It announced the departure of its chief executive and chief financial officer in January.

At that stage, the company created an interim three-

person "office of the chief executive". The team included Mr Bennett LeBow, chairman of Brooke.

Most recently, Liggett has stirred the already troubled waters of the US cigarette market by introducing a new discount brand, Eagle, which is stylishly-packaged and undercuts rival products on price.

The introduction of Eagle came after Philip Morris, the largest US cigarette company, announced large price cuts in its full-priced brands, and both Philip Morris and R.J.R. attempted to edge up prices of their discount brands, narrowing the price differential between the two segments of the market.

## ITT Financial to raise \$3bn

ITT Financial, the financial services arm of the US conglomerate ITT Corp, unveiled plans yesterday to raise up to \$3bn through a debt offering, writes Patrick Harverson.

In a shelf filing with the Securities and Exchange Commission, the company said it would use the proceeds from the issue of debt securities and warrants to purchase debt securities for general corporate purposes, including repaying existing debt and funding investments.

ITT Financial, which operates 14 quarries and gravel pits as well as 21 ready-mixed concrete plants in Spain, is being absorbed into Minoro's industrial minerals division, built up in the past two years entirely by \$640m-worth of acquisitions.

Minoro bought the Johnson Matthey abseholding from Charter Consolidated, the UK industrial group over which Minoro - and therefore Anglo - has considerable influence via a 36 per cent shareholding.

Minoro's (and Anglo's) main interest was always Johnson Matthey. Now that Minoro has a direct shareholding in JM, it has no reason to retain the Charter stake.

Some analysts expect Charter to buy its own shares back from Minoro and thus break free from the Anglo-Minoro influence. Mr Slack says it is up to Mr Jeff Herbert, Charter's managing director, to make the running.

Minoro will sell Terra, a non-core US subsidiary which produces and distributes agricultural products, but not while today's depressed market persists.

Terra, along with the Hudson Bay Mining and Smelting company in Canada, was part of the inaptly-named Inspiration Resources, and already in Minoro's pre-1988 portfolio. The Hudson Bay copper-nickel business is not world-class and Minoro is having trouble getting it into shape.

Minoro now has direct interests in two of the world's three big platinum marketing companies. Apart from 10 per cent of Johnson Matthey it owns 30 per cent of Engelhard in the US. Mr Slack says an important aspect of the deal with Charter is that Minoro now has more flexibility if at any time it wanted to increase its interest in either of these groups.

He says Anglo-De Beers still wants to reduce its combined 60 per cent holding in Minoro to more like 50 per cent in the longer term. But not while Minoro's shares are at such a substantial discount to its assets.

## Golden opportunities go begging

Minoro's plans for expansion are thwarted, writes Kenneth Gooding

MR Hank Slack does not try to hide his disappointment. As chief executive of Minoro, he was ready to spend about \$1bn cash on two acquisitions aimed at turning his businesses into one of the world's biggest mining groups.

But both tantalising prospects slipped from Minoro's grasp.

Mr Slack's goal was to transform Minoro, until 1988 a sleepy offshore investment arm of the Anglo American Corporation-De Beers group of South Africa, by reorganising its portfolio, shaking-up or turning out existing operations and buying analysts suggest, however, that until recently the process has been painfully slow and not particularly impressive. Minoro's market rating said it all: its share price has languished at a 30 to 40 per cent discount to asset values.

The two big opportunities would certainly have changed market perceptions. Minoro was offered the chance to join the world-class copper producers when British Petroleum agreed to sell it 49 per cent of the Olympic Dam mine in South Australia for \$240m, plus \$190m to repay loans.

But Western Mining, the Australian group which had the majority stake in Olympic Dam, had pre-emptive rights to the BP stake. It kept Minoro in suspense for four months before deciding to exercise those rights.

All might not be lost, however. Mr Hugh Morgan, managing director of Western, has invited the Minoro chief to bring a team to look over Olympic Dam.

Although Mr Slack says he does not know what Mr Morgan has in mind, analysts jump

to the obvious conclusion: that Western might offer Minoro some of the action at Olympic Dam.

Minoro's other disappointment was never made public. The group hoped to buy Gold Fields Mining Corporation, which has two gold mines - Chimney Creek in Nevada and Mesquite in California - from Hanson, the Anglo-American conglomerate.

GFMC would have been merged with Minoro's Independence Mining subsidiary, which also operates in Nevada, to become one of North America's top 10 gold producers.

Hanson opted instead for an asset swap, handing over GFMC to Santa Fe Pacific in exchange for the US group's coal and aggregate operations. Each set of assets were estimated to be worth about \$800m.

Mr Slack says Minoro is still looking for more gold opportunities, but that "the prices being asked are still very fancy".

Most analysts suggest Minoro paid a "fancy" price indeed for Independence Mining, which it bought for \$705m from Freeport McMoRan of the US in 1990. There was, however, an important reason.

Minoro started down its new strategic road in 1989 by making a \$5.5bn hostile bid for Consolidated Gold Fields of the UK. Minoro owned 29.9 per cent of Gold Fields and acceptances took its holding to more than 50 per cent.

However, a New York judge blocked the takeover, citing Minoro's South African ownership and Anglo's liking for cartels. Minoro gave up the Gold Fields battle, leaving the way clear for Hanson.

Minoro collected \$1.6bn cash for its Gold Fields shares.



Hank Slack: 'prices being asked still very fancy'

However, because of the New York ruling, it apparently had no way of spending it in the US.

This proved not to be the case when Minoro was given the go-ahead to buy Independence.

Mr Slack admits Independence's financial performance has been disappointing, but cost-cutting is under way. This includes dismantling the Independence board and the consequent streamlining of Minoro's cumbersome US management structure.

There has also been a wider management shake-up at Minoro, which effectively had three managing directors: the original "Young Turks" who persuaded Anglo that Minoro should change its style and mount the offensive against Gold Fields. Now Mr Tony Lea is being recalled to Anglo's headquarters in Johannesburg and Mr Roger Phillimore resigned because he lost the contest for the chief executive's job.

These changes, however, have not diminished Minoro's appetite for acquisitions. In the past seven months it has spent about \$337m on four deals: jointly with Anglo it paid \$150m for one-third of the Colaba copper project in Chile; on its own account it paid \$65m for a half-share in the Lishan zinc deposit in Ireland; it paid \$25m (\$84.7m) to buy Steatley Iberia from Redland, and \$80.6m to swap an indirect

interest in Johnson Matthey, the UK platinum marketing group, for a 10 per cent direct stake.

Steatley, which operates 14 quarries and gravel pits as well as 21 ready-mixed concrete plants in Spain, is being absorbed into Minoro's industrial minerals division, built up in the past two years entirely by \$640m-worth of acquisitions.

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First Quarter 1993 Results			
	1993 (unaudited)	1992	% Chg.
Sales (\$00,000)	\$2,457.8	\$2,267.1	7.5
Net Income (\$00,000)	\$302.5	\$261.6	15.6
Earnings per Share	\$1.01	\$0.87	16.1
Assets (\$00,000)	\$24,331.9	\$23,610.0	2.2
Access Lines (000)	12,951	12,530	3.4
Cellular Customers (000)	1,513	1,023	47.9

\*1993 net income and earnings per share are before extraordinary loss of \$99.4 million and cumulative effect of accounting changes totaling \$82,127.2 million.

Southwestern Bell Corporation

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For more information about SBC, please contact Director-Investor Relations, 175 E. Houston, Box 8-A-80, San Antonio, TX 78205, U.S.A. Tel: (210) 351-2044 or T.R. Dawson & Co., World Trade Centre, London, England BA4, U.K. Tel: (071) 988-2433.

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May 20, 1993, London  
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## INTERNATIONAL COMPANY NEWS

## Woolworths aims for A\$2.45bn

By Bruce Jacques in Sydney

WOOLWORTHS, the Australian retailing group, will go public next month in the country's biggest corporate flotation, seeking up to A\$2.45bn (US\$1.69bn) without an underwriter.

The chairman of Woolworths, Mr Paul Simons, launched the long-awaited flotation yesterday, with forecasts of continued strong earnings and sales growth, against the national retailing trend.

Mr Simons ended months of speculation, revealing that the flotation would offer 1bn shares at a price between A\$2.15 and A\$2.45, to be determined by an institutional tendering process.

The flotation will be in four parts, with the biggest proportion of nearly 49 per cent offered on a non-renounceable basis to shareholders in Woolworths' parent companies, Adelaide Steamship, David Jones, and Tooth and Co. These companies were all formerly part of the corporate empire run by Mr John Spalvin.

A further 30 per cent of the shares will be offered to institutional investors, 1 per cent will be reserved for staff, and the rest will go to individuals.

Shares not taken up in either the entitlement or employee offers will be available to institutions or the public. Mr Simons said the public offer would begin on June 9 and remain open for one month.



Paul Jones: forecasts continued strong growth against the national trend

Trading in Woolworths shares is expected to begin on July 12 on a deferred delivery basis, representing the first time the Australian Stock Exchange has allowed trading to begin before scrip delivery.

Despite strong publicity surrounding the flotation, some observers were surprised at the lack of both an underwriter and rights trading, especially as the vendors were forced to delay the flotation in 1992 after share markets weakened.

The prospectus states that if applications, bids and indica-

tions of interest are not received for all of the shares offered, "the vendor has resolved that the sale of shares will not proceed".

Mr Simons said yesterday that the board predicted a 14 per cent advance in Woolworths' earnings before interest and tax to A\$278.9m for the current year and a further 11 per cent rise to A\$310.2m for next year.

After-tax earnings were forecast at A\$186.3m in the current year, rising to A\$188.5m next year, representing a prospec-

tive price-earnings multiple of just over 13 at the highest possible flotation price of A\$2.45 a share.

The prospectus forecasts a final dividend of 6 cents a share this year and an annual dividend of 13 cents a share next year, representing a yield of just under 5 per cent at the maximum flotation price.

A forecast pre-forma balance sheet estimates core debt of the floated entity at A\$258m, rising to A\$333m by mid-1994. Bank credit facilities totalling A\$420m have been arranged.

## Yamaha plunges 58.7% to Y2.8bn

By Robert Thomson in Tokyo

YAMAHA, the world's largest maker of musical instruments, yesterday reported a 58.7 per cent plunge to Y2.8bn (\$25m) in pre-tax profits, prompting the victors in a recent boardroom coup to intensify a restructuring programme.

Sales during the year ending in March fell 14 per cent to Y330bn. However, the company estimated that the fall was only 3.9 per cent if the transfer of its housing equipment division to a subsidiary was taken into account.

However, sales of most mainstream products, including pianos, electronic instruments, and sports equipment, were lower, and the company said the fall in interest rates during the period reduced financial income.

Three generations of family rule at Yamaha ended in March when Mr Hiroshi Kawakami, the grandson of the founder, was removed from the board after the company's union demanded that executives took responsibility for deteriorating profits.

Profits have slipped for three successive years, and the company is expecting the fall to continue this year, forecasting a pre-tax profit of Y2.5bn, down 10 per cent, on sales of Y336bn, a slim 1.6 per cent higher.

The company's labour union may have played an important role in ending the reign of the Kawakami family, but one of the new leadership's most pressing tasks is to cut the workforce.

● Aiwa, the audio equipment maker, reported a 33 per cent fall in pre-tax profit to Y2.9bn, in spite of an 11 per cent increase in operating profit, with the difference due to exchange rate losses and reduced financial income.

Many Japanese companies are reporting far higher falls in pre-tax profits than in operating profits, reflecting the sharp reliance on income from financial engineering, which has become more difficult in the face of falling interest rates and collapsing stock prices.

Sales at Aiwa rose 6.8 per cent to Y161.6bn, including a 3.5 per cent increase in audio equipment sales and a 25 per cent rise in sales of video equipment, which accounted for about 17 per cent of total sales.

Domestic sales fell by almost 5 per cent, but exports were 10 per cent higher, due to strong demand from east Asian countries.

For the current year, Aiwa forecast a pre-tax profit almost unchanged at Y3bn on sales of Y170bn, a 5 per cent increase on last year.

## Troubled Honda seeks a mass market formula

Michio Nakamoto reports on moves to escape a niche

WHEN officials of Honda assembled today at the company's headquarters in Tokyo's fashionable Aoyama district to unveil a new passenger car, they will be investing more hope than usual in their latest offering to help reverse the company's sagging fortunes.

Honda has just announced a 32 per cent decline in pre-tax profits and a 61 per cent fall in net income for the year to March, and warned that trading in the current year was likely to be at least as bad.

The Japanese motor manufacturer, which began production at a new factory in the UK last autumn, expects demand to remain weak in its main markets and the year's sharp appreciation to result in a 40 per cent decline in consolidated net income this year.

Honda officials do not see light at the end of the tunnel yet, and are battenning down for a tumultuous year ahead.

Capital investment is being kept at about half the level of its 1990 peak, profit-related bonuses for board members are being cut by 10 per cent, and recruitment of graduates will be nearly halved next April.

These steps come in addition to a restructuring programme introduced three years ago which has already streamlined operations and cut costs significantly. But these defensive measures, while effective in getting the company into better shape to meet the challenges of a severely depressed and increasingly competitive motor industry, have failed to solve Honda's overriding problem - its inability to make sufficient profits on cars.

Operating income from car production last year declined by 62 per cent to Y49.2bn (\$443m) and the outlook for improvement does not look promising. Income from cars is now only slightly more than that from motorcycles.

Honda, once a symbol of Japanese innovation and a company that built America's most popular car for the three years until the last, increasingly seems to have everything going against it.

In the US, where it has had spectacular success with its mass-market Accord, the prospects remain uncertain for all car manufacturers and for Honda in particular.

It has been losing market share in the US where it estimates its slice has fallen from 8.8 per cent in 1991 to 9.3 per cent last year and 7.5 per cent in the first four months of 1993.

These qualities served it well when demand in the US market was firm and the huge popularity of the Accord made up for its relative lack of other offerings with mass appeal.

But they have been a big stumbling block as changes in the US market, the high yen and increased competition have eroded what advantages it had as a focused company with a head-start over other Japanese manufacturers.

Honda is hoping that the launch of new models, such as the mid-range Integra which is being unveiled today, and a new Accord later this year, will help stimulate demand.

It believes it has a formula for success in cost-cutting measures which have helped it to add value to products without adding to the price.

Honda is also confident the restructuring will begin to show results ahead of others in the industry. The motorcycle division, for example, has doubled operating income to Y45.3bn since it was made a separate business division.

But that cannot make up for the fall in car revenues as the unit price of motorcycles is so much smaller, says Mr Koji Endo, an analyst at SG Warburg. "Honda is not a full-line maker, but neither is it a niche manufacturer any longer," Mr Endo says. Its current size means that "it probably can't go back to being a niche player".

If so, Honda's chances of making a comeback depend largely on whether it can hold its own against its big rivals.

That, Mr Endo believes, depends to a large degree on whether the new Accord, its most popular mass market car and main profit earner, can attract enough demand after it is launched this autumn to offset what is expected to be a very slow period until then.

In the domestic market,

## Japanese textile groups under pressure

By Robert Thomson

KURABO Industries, a leading Japanese textile company, reported an 87.5 per cent fall in pre-tax profit to Y230m for the year to March, reflecting the harsh times facing the industry, which is under assault from imports from China and other Asian countries. Sales fell 9.6 per cent to Y130.5bn.

The company is hoping profits will increase to Y500m this year but admits that sales will be flat. A rationalisation programme will continue in an attempt to increase profits.

The company is attempting to diversify into areas such as information systems and chemicals, but the slowing of the Japanese economy has put these businesses under extreme pressure.

Meanwhile Shikibo, a cotton spinner, reported a pre-tax loss of Y4.4bn, less than the previous period's loss of Y5.4bn, but another sign of the distress in the industry, which is pressing the government to impose controls on imports.

Six members of the Shikibo board have resigned and new heads appointed for its property, textile, industrial material, and business development divisions. The board was cut from 14 to 10 members.

Sales were down 11.8 per cent to Y84.4bn, and are forecast to fall further to Y64bn this year. A pre-tax loss of Y3bn is expected.

## Product recalls hit Matsushita offshoot

By Robert Thomson

MATSUSHITA Refrigeration, the home refrigerator subsidiary of the Matsushita group, yesterday reported a net loss of Y29.9bn (\$269m), after having been forced to book extraordinary losses for the recall of defective products.

The loss, coming after a profit of Y4bn in the previous year, was the first since its listing in 1985, and was cited as one of the causes for the recent boardroom reshuffle in the parent company.

Sales for the year slipped 13 per cent to Y176bn, as domestic demand for refrigerators and other consumer goods was unusually weak.

But the most important reason for the red ink in the year ended in March was a special charge of Y31.4bn linked to the recall of about 420,000 refrigerators with flawed compressors. As a result, executive bonuses are to be cut by 30 per cent this year.

The company, which also makes vending machines and air conditioners, managed a pre-tax profit of Y145m, but there was an operating loss Y4.6bn.

For the current year, the company expects a pre-tax

profit of Y3.5bn on a 5 per cent increase in sales to Y167bn.

● Makita, the leading Japanese maker of electric tools, said pre-tax profit fell 6 per cent to Y12.6bn in the year ended in March, while sales fell 4.5 per cent, the first fall in 30 years.

The company blamed the appreciation of the yen and the slowing of the domestic economy for the downturn in sales, which totalled Y123bn, while it has also been troubled by a US anti-dumping action on Japanese hand tools.

Makita is particularly vulnerable to currency fluctuations as its exports about 65 per cent of its output, though the company has been expanding its production bases in the US and Brazil.

Demand is strongest from the rapid growth countries of south-east Asia, but the company expects that sales this year will fall 12 per cent to Y106bn, while pre-tax profit is forecast to slip 35 per cent to Y3.2bn.

Consolidated sales were 0.8 per cent higher at Y178.9bn, and pre-tax profit was down 5.7 per cent at Y20.2bn. It expects a fall of 5 per cent in sales and about 26 per cent in profit this year for the group.

## MEDITERRANEAN FUND LIMITED

Notice to the holders of the International Depositary Receipts (IDRs) issued by Morgan Guaranty Trust Company of New York evidencing shares of US\$0.10 each ("Shares") in the capital of Mediterranean Fund Limited ("Company") issued pursuant to a Deposit Agreement (the "Deposit Agreement") dated 15 December, 1992.

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting ("EGM") will be held at the office of Schroder Investment Management Limited at 30 Cutler Lane, London EC2Y 4AS on Monday 24 June, 1993 at 4 p.m. to consider and if thought fit to pass the following resolutions to be proposed as Special Resolutions and Ordinary Resolutions respectively.

**Ordinary Resolution 1**  
That conditional upon and with effect from the cancellation of the share capital proposed by Special Resolution 1 becoming effective the share capital of the Company be increased by £2,000,000 by the creation of 20,000,000 shares of £0.10 each.

**Ordinary Resolution 2**  
That conditional upon Ordinary Resolution 1 being passed and conditional on and with effect from the cancellation of the share capital proposed by Special Resolution 1 becoming effective the Directors be and they are hereby authorised to exercise all the powers of the Company's share premium account for the purpose of distributing to each shareholder twenty shares of £0.10 each, fully paid up, for each share of £0.10 then held.

**Special Resolution 1**  
That the 1,000,000 authorised shares of US\$0.10 each in the capital of the Company be cancelled, such cancellation to be subject to confirmation by the Royal Court of Guernsey and to come into effect immediately upon such confirmation being given.

**Special Resolution 2**  
That, conditional upon and with effect from the cancellation of the share capital proposed by Special Resolution 1 becoming effective, the Articles of Association of the Company be altered as follows:

(a) in Article 1 of the Company's Articles of Association the sub-paragraph reading: "Dollars," "pence," "or" be deleted in its entirety and in its place there shall be substituted: "pounds," "pence," "or" "cents," "penny" or "pennies";

(b) Article 6 of the Company's Articles of Association be deleted in its entirety and in its place there shall be substituted: "The share capital of the Company is £2,000,000 divided into 20,000,000 Shares of £0.10 each, each share having the rights herein set out as respects the voting rights."

(c) the reference in Article 6 of the Company's Articles of Association to US\$0.10 be deleted and in its place there shall be substituted: "such amount in Sterling as shall equal US\$0.10 converted into Sterling at the rate of exchange certified by J. Henry Schroder Wagg & Co. Limited, the Company's bankers, to be the market rate prevailing on the business day immediately preceding the confirmation by the Royal Court of Guernsey of the cancellation of the share capital of the Company denominated in US Dollars";

(d) the reference in Article 7 of the Company's Articles of Association to "7500" dollars be deleted and in its place there shall be substituted: "such amount in Sterling as shall equal US\$7,500 converted into Sterling at the rate of exchange certified by J. Henry Schroder Wagg & Co. Limited, the Company's bankers, to be the market rate prevailing on the business day immediately preceding the confirmation by the Royal Court of Guernsey of the cancellation of the share capital of the Company denominated in US Dollars";

(e) the reference in Article 7 of the Company's Articles of Association to "5,000 Dollars" be deleted and in its place there shall be substituted: "such amount in Sterling as shall equal US\$5,000 converted into Sterling at the rate of exchange certified by J. Henry Schroder Wagg & Co. Limited, the Company's bankers, to be the market rate prevailing on the business day immediately preceding the confirmation by the Royal Court of Guernsey of the cancellation of the share capital of the Company denominated in US Dollars";

(f) the reference in Article 13(1)(c) of the Company's Articles of Association to "Dollars" or "Dollars" be deleted and in its place there shall be substituted: "Pounds" and "Pence" respectively;

(g) the reference in Article 14(1)(b) of the Company's Articles of Association to "Dollars" be deleted and in its place there shall be substituted: "Pounds" and "Pence" respectively;

**Ordinary Resolution 3**  
That, conditional upon and with effect from the cancellation of the share capital proposed by Special Resolution 1 becoming effective, the accounts of the Company shall be maintained in Sterling and the Directors shall make such entries as shall be appropriate to reflect the foregoing Resolutions in the books of account of the Company, including, without limitation, the conversion of the share premium account of the Company from US Dollars to Sterling.

**Further Information**  
Details of the background to, and the reasons for the proposed resolutions are contained in a circular ("Circular") from the Company dated 19 May 1993 and addressed to the holders of Shares, the holders of Warrants, the holders of IDRs and the holders of Depositary Warrants. Copies of the Circular, together with a form of voting instructions may be obtained by holders of IDRs from the office of Schroder Investment Management Limited at the address set out below or from the Depositary or any of the Agents at the addresses respectively set out below.

**Voting and Quorum**  
IDR-holders may by extension of the Board attend but are not entitled to vote at the EGM and should instruct the Depositary as to the exercise on their behalf of the voting rights attributable to the Shares evidenced by the IDRs they hold. An IDR holder wishing to vote should obtain the form of voting instructions as set out above and complete it in accordance with the instructions printed on the form and return the completed form as soon as possible, and in any event, so as to be received by the Depositary by 10 June, 1993. IDR-holders are reminded that arrangements exist for voting instructions received by the Depositary or by the Company to be forwarded to the Depositary as to voting may be given to the Depositary at the address given below (Attention: Securities Department - telephone 33-8-608-64-60 or 33-8-608-64-60) in writing no later than 10 June, 1993.

The Depositary will not be valid unless there is a quorum of the Depositary or to any of the Agents at their addresses respectively specified below either (i) the IDR in respect of the Shares for which such instructions are given or (ii) a certificate from an Agent, Executive or Clerk to the effect that such IDR has been deposited with it and to be held in a blocked account to the order of the Depositary or the Agent (as the case may be) to whom the IDRs should be returned after the Meeting or any adjournment thereof. The Company has agreed to pay all fees charged by the Depositary relating to the exercise of voting rights in respect of Shares evidenced by IDRs at the EGM.

The quorum required at the EGM is five shareholders present in person or by proxy and entitled to vote being the holders in nominal amount of one-twentieth of the Company's issued share capital and to be present, the Special Resolutions require a majority in favour of three-fourths of the votes cast at the EGM. If a quorum is not present within half an hour from the time appointed for the EGM, the Meeting will stand adjourned to the same day, time and place in the next week or to such other day and time and place as the Directors may determine. If holders of one-twentieth or more of the issued Shares are not present within fifteen minutes from the time appointed for holding the adjourned Meeting any Shareholder or Shareholders present will then constitute a quorum.

**Availability of Documents**  
Copies of the Deposit Agreement may be inspected, and copies of the Circular, together with the form of voting instructions and the Annual Report and Accounts of the Company for the year ended 31 December 1992 may be obtained by the holders of IDRs from the office of Schroder Investment Management Limited at the address set out below or from the Depositary or any of the Agents at the addresses respectively specified below.

**Depositary**  
Morgan Guaranty Trust Company of New York  
Attention: Article 35  
330 Broadway  
New York, New York 10013  
USA

**Agents**  
Morgan Guaranty Trust Company of New York  
60 Victoria Embankment  
London EC4Y 0DP  
England

**Shareholders**  
Schroder Investment Management Limited  
30 Cutler Lane  
London EC2Y 4AS

This advertisement is issued in compliance with the requirements of the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited. It does not constitute an invitation to any person to subscribe for or purchase any securities of Shanghai Fund (Cayman) Limited.

Application has been made to the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("the London Stock Exchange") for the Warrants to be issued to Shareholders as described in the Circular to Shareholders dated 19 May, 1993 and for the Participating Shares to be allotted pursuant to the exercise of the subscription rights attached to the Warrants to be admitted to the Official List. It is anticipated that the listing of the Warrants will become effective and that dealings will commence on 2 July, 1993. No application has been made for the Warrants to be listed on any other stock exchange.

## Shanghai Fund (Cayman) Limited

(an exempted company incorporated with limited liability under the laws of the Cayman Islands with registered number 394296)

Issue of up to 353,200 Warrants following payment of the second and final instalment of US\$ 5.00 per share on the issued Participating Shares of US\$ 0.01 each

Issued Share Capital  
(Assuming exercise of 353,200 Warrants)

Number of Shares Issued	Price per Share	Total
100	US\$ 1.00 each	US\$ 100
2,119,200	US\$ 0.01 each	US\$ 21,192

Particulars of the Company will be included in the Companies Fiche Service available from Exel Financial Services Limited, 37-45 Paul Street, London EC2 from 3.00 pm on 20 May, 1993. Copies of the Circular to Shareholders dated 19 May, 1993 comprising listing particulars relating to the Warrants described herein may be obtained during normal business hours on any weekday (Saturdays excepted) by collection from the Companies Announcements Office of the London Stock Exchange, Stock Exchange Tower, Capel Court Entrance, off Bartholomew Lane, London EC2 up to and including 24 May, 1993. Copies may also be obtained during normal business hours on any weekday (Saturdays excepted) up to and including 5 July, 1993 from Financiere Indosuez Limited, No. 1 London Bridge, London SE1 9TJ (a member of The Securities and Futures Authority Limited).

Date 20 May, 1993.

BANQUE INDOSUEZ GROUP

All these securities have been sold, this announcement appears as a matter of record only.

New Issue

11th May 1993



## Japan Finance Corporation for Municipal Enterprises

U.S.\$250,000,000

6 1/4 per cent. Guaranteed Bonds due 2003

unconditionally and irrevocably guaranteed as to payment of principal and interest by Japan

Japan

Issue Price 99.82 per cent.

Bank of Tokyo Capital Markets Limited  
Credit Suisse First Boston Limited  
Deutsche Bank AG London  
J.P. Morgan Securities Ltd.  
Lehman Brothers International  
UBS Limited

Goldman Sachs International Limited  
Merrill Lynch International Limited  
Morgan Stanley International  
Nomura International  
Swiss Bank Corporation  
Yamaichi International (Europe) Limited

ITCB International Limited  
Paribas Capital Markets  
S.G. Warburg Securities



## Bank opts for a conciliatory tone on derivatives

## Denmark three-year issue struggles in spite of Yes vote

## Russian Treasury bill to ease budget deficit

FT-300 (200)	1980					1981					1982					1983				
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
200	13	15	23	14	17	21	20	19	18	17	16	15	14	13	12	11	10	9	8	7
220	8	14	14	17	21	31	31	30	29	28	27	26	25	24	23	22	21	20	19	18
240	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
260	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
280	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
300	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
320	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
340	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
360	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
380	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
400	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
420	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
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460	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
480	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
500	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
520	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
540	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
560	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
580	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
600	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
620	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
640	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
660	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
680	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
700	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
720	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
740	1	1	1	1	1															



## COMPANY NEWS: UK

# Allied Lyons' £200m bond issue launched

By Philip Rawstorne

ALLIED-LYONS, the drinks, food and retailing group, yesterday launched its £200m convertible bonds issue.

News of this was leaked last weekend and led to three days of see-sawing share prices. The company said yesterday that its financial advisers were discussing the leakage with the stock exchange and decisions about possible action would be made after the talks.

"We are very concerned about the leakage, which certainly was not in our interests," Allied said.

The timing of the convertible issue, which came a day after the group reported a £10m increase in full year profits to £220m, had not been affected by the leakage, it added.

Allied said the proceeds of the issue would be used for "general corporate purposes."

Some will replace short-term bank borrowings used to finance its free-trade pubs' loan book.

None of the cash is intended for acquisitions, such as the purchase for an estimated £40m from Seagram of Perrier-Jouet/Barton & Guestier, the French distribution company.

Allied repeated its long-standing pledge yesterday to launch a rights issue only to fund a major acquisition.

The 15-year bonds will be converted into Allied ordinary shares at a premium between 17 per cent and 20 per cent above the company's share price. A coupon of 6 per cent will be paid twice a year.

Credit Suisse First Boston is leading the issue and Cazenove and SG Warburg Securities will be co-lead managers. There will also be a group of international co-managers.

See Lex and Capital Markets

## Acatos rises to £5.14m despite static sales

By Catherine Milton

ACATOS & Hutcheson, the manufacturer and supplier of edible vegetable oils, lifted pre-tax profits from £4.23m to £5.14m to the half year to March 28.

The new FRS 3 accounting standard meant the improvement for the six months was flattened by an exceptional credit of £600,000 shown for the comparable period. Last time it was recorded as an extraordinary item.

Turnover was static in the first half at £104.9m (£104.6m) and trading remained difficult in the current half, said Mr Ian Hutcheson, chairman.

"Prices in the retail sector remain under pressure while some easing in the bakery market will not benefit us significantly in the current year."

More than 50 per cent of turnover goes to catering and retail customers.

He said performance gains at the company's Orchard Place factory, which contributed to the improved profits, would not be repeated on the same scale and there would be less scope for further interest savings.

Net interest charges fell to £387,000 (£326,000) because of lower interest rates and the company said gearing was further reduced. Mr Ian Cann, finance director, said gearing figures fluctuated with purchases of raw materials.

Mr Hutcheson said his confidence in future prospects was increasing: "Volumes were maintained in all our principle markets despite continued strong competition."

The company said the continuing decline in the total market for edible oils concealed a switch away from non-refined oils based on animal fats in favour of vegetable fats. Mr Cann said: "Animal fats are a minor part of our business and have been for a number of years."

"We have progressively shifted into vegetable oils and in addition produce some more sophisticated products like low-fat spreads."

The board has declared an interim dividend of 3p (2.5p) on earnings per share of 10.4p (9p).

# Compass route raises eyebrows

By Richard Gourlay

FOR 18 months Compass has said it wanted to move into Europe to establish a contract catering business in the fragmented market.

It was therefore only the route that raised eyebrows yesterday when Compass group bought the SAS airport catering and contract catering business for £71.9m, financed through a rights issue.

While the market greeted the deal favourably, the choice of Scandinavia does require some explaining. As one analyst said, "It is good deal but it could have made a better move into Europe."

First of all, the majority of the contract catering business is in Scandinavia - about 40 per cent of that is in Norway's offshore sector. And half the airports are in Norway or Sweden, with 20 per cent in the UK.

It is not entirely clear why these northern reaches provide a better platform for growing in the Benelux, France and Germany - the key European markets - than does the UK.

Secondly, Compass is increasing the risk profile of its business. Catering for work-places or health services may be cut-throat but having won



Francis Mackay: market greeted the deal favourably

the contract the income line is at least nailed down. With airports, tomorrow's sales cannot be known for certain.

Thirdly it is not clear that the Compass style of squeezing suppliers to improve margins will necessarily travel to the Continent or that it will be easy to implement across eight countries.

Compass is confident, however, that it can deliver

improved margins. Mr Roger Matthews, finance director says the SAS businesses will give the group experience of managing in Europe and the chance to grow organically from a modest base in Germany, one of its strategic target markets.

By moving into airports, Compass has also gained exposure to a market segment that will recover earlier in the eco-

nomie cycle than its existing businesses. Contract catering in the UK may now be bumping along the bottom but it could be a relatively late beneficiary of economic recovery while the push into hospital and educational catering will also take a while to bear fruit.

Compass has also bought from SAS the option to introduce Burger King hamburger outlets at European airports outside France. This will give it a useful comparator for the Casey Jones hamburger and Upper Crust sandwiches, two much smaller brands it bought last year.

Financially, the deal has done Compass no harm. Deferred payment and a rights issue slightly larger than the purchase price will reduce gearing from the 200 per cent that would have prevailed at the end of 1993. Gearing should now be about 77 per cent on debt of £38m. More importantly in this business, Compass's interest cover rises from about seven times to over 14 times.

Following the deal some analysts have lifted forecasts of earnings to 38.5p for the first full year, which gives a prospective multiple of 13.6, a modest premium to the market.

## Leeds reaps £2.9m and buys into Continent

By Peter Pearce

LEEDS Group, the West Yorkshire-based textile dyer and printer described by Mr Robert Wade, its chairman as "tortoise, not a hare", lifted pre-tax profit 16 per cent from £2.51m to £2.92m in the six months to March 31. This steady progress was "no more or less than is expected of us."

Turnover grew 4.5 per cent to £21.7m (£20.8m). However Mr Wade pointed out that, although this gave the impression of a climb in margins, they had in fact remained either constant or had slipped a little, though volume production had risen more than the turnover advance indicated.

He said that the financial value of sales had been adversely affected by two factors.

First, the fire at the Walsden factory, which accounts for a little less than 20 per cent of the group's output, had hit production - a "conservative" £385,000 exceptional credit was taken above the line to account for any business interruption insurance. Second, there was a 31 per cent fall in wool prices during the last year, though Mr Wade added that they had risen in the past few weeks.

Since the period-end, Leeds made its first non-UK acquisition in the Netherlands. For an initial £2.45m and a maximum further payment of £1.03m, it has bought TIM Beheer and Itec Brummen, which specialise in transfer printing of textiles and merchandising dyed and printed fabrics, as a "springboard" for the rest of Europe.

The non-apparel business continued to grow, though it still represented less than 25 per cent of the group.

Mr Wade said Leeds liked to do "difficult things where the margins are high" - the camouflage, printed furniture fabrics and curtains operations performed well, he said.

The difference between Leeds and other textiles groups, he said, was that it did not spin, weave or make clothing. It was simply concerned with colour and design, converting a commodity to what the market wanted very quickly.

On the non-textile side, Mr Wade said that Leeds Leasing had started to write an increased level of business after two years of restricted activity.

Earnings per share rose to 10.8p (9.5p) and the interim dividend is lifted to 2.75p (2.33p).

## Young & Co slips 7.5% to £5.17m as operating margins decline

By Catherine Milton

HIGHER interest costs helped depress pre-tax profits at Young & Co's Brewery, the south London-based real ale brewer, by 7.5 per cent from £5.59m to £5.17m for the year to March 27.

Stripping out last year's exceptional profit of £244,223 on the sale of assets, the decline was 3 per cent.

Turnover was £72.9m (£68.1m). Operating profits rose to £8.19m (£8.03m).

Interest charges rose to £3.02m (£2.68m) mainly because of increased borrowings for the August 1991 acquisition of HH Finch, the owner of 22 pubs and six wine bars, and fluctuations in interest rates.

The company said gearing at the year-end was unchanged at about 30 per cent. In April, Young raised £15m from a debenture issue partly to repay

bank loans.

Operating margins slipped to 11.23 per cent (11.79 per cent). Mr John Young, chairman, said: "We offer lower prices. In the light of events we probably should have put them up but we try to offer better prices than our competitors."

"Recovery is slow and gradual. In the south and south-east, the recession is still biting quite hard."

He said the company's four hotels, opened on existing pub sites, were repaying their investment.

The company is opening another on Monday in south London and has planning permission for two more. Mr Young said he thought the company would ultimately run seven or eight hotels.

The board proposes a same-again final dividend of 7.5p giving a maintained total for the year of 14.5p. Earnings per share fell to 26.4p (27.51p).

## RJB goes to market valued at £103m

By David Lascoll, Resources Editor

RJB MINING, the privately owned coal company which aims to take advantage of the restructuring of the British coal industry, is being floated on the stock market with a value of £103m.

The shares were priced yesterday at 250p.

This represents a multiple of 11 times earnings for 1992, excluding interest on the finance raised to buy the company out the year before.

The price also reflects a notional gross dividend yield of 5.75 per cent.

Just under half the company's shares, or 20m, are being offered for sale, and 13.3m of these have been firmly placed.

Of the £50m proceeds, £24.3m net will go to the company to repay bank borrowings and provide additional working capital. Existing shareholders

will receive £23.5m of cash.

After the sale the principal shareholders will be Schroder Ventures with 25 per cent, Charterhouse with nine per cent and Mr Richard Budge, the chief executive, with 10 per cent.

Deadline for applications is 10am on May 27. Dealings start on June 7.

The Union of Democratic Miners took the unusual step yesterday of backing the flotation, with a call for British Coal to speed up negotiations to sell unwanted pits to companies like RJB.

Mr Neil Greatrex, UDM President, said: "Budge are convinced that they have the markets for coal and we support them. But unless a decision is made soon, this will be yet another lost opportunity for the industry."

### COMMENT

With no obvious point of comparison in the market, the pricing of RJB presents something of a problem. But the indications are that underwriters BZW are erring on the side of caution. The £103m price tag is at the low end of the £100m-

£120m range being bandied about. The earnings multiple is also below the average for the industrial materials sector, and the yield is slightly higher. This reflects partly the heavy demands currently being placed on the coal industry and also the uncertainty in RJB's prospects. If it fails to capitalise on the changes in the coal industry it will be left to the mercy of British Coal. But if it succeeds it could emerge as the country's leading low cost producer. The flotation is an opportunity to take a bet on the outcome.

## Watts Blake shareholders fail to find buyer for 45.2% stake

By Roland Rudd

WATTS BLAKE Bearn's fight to remain independent received a boost yesterday when three of its big shareholders said they had failed to find a buyer for their combined stake of 45.2 per cent.

The companies will continue to act as a concert party. Under takeover rules the sale to a single party would have led to an offer for the entire issued share capital of the ball clay producer.

The three investors, which had hoped to sell their shares by May 18, are Ceramics Holdings, controlled by the Lebanese Gargour family, Sibelo, a privately-owned Belgian-based producer of silica sand for the glass industry, and Quarzwerke, a private German producer of silica sand.

Mr John Pike, Watts Blake Bearn's managing director, said: "I am very pleased that their offer for sale terminated. However, the concert party remains in force. The sooner

this thing is sorted out the better."

The three shareholders are expected to try and sell their shares again, although they have not yet formally made a decision. J Henry Schroder Wagg, the merchant bank, is advising them.

Mr Pike is concerned that it could be difficult to mount a defence if the sale of a large block of shares triggered a bid at an unsatisfactory price. Watts Blake Bearn's shares fell 10p to 410p.

## COMMERCIAL UNION

THREE MONTHS' REVIEW

### Pre-tax profit of £16.2m

★ Strong improvement in results with continued but selective development of life and general insurance operations.

★ Substantial profit from life operations of £29.8m.

★ Recovery continues in United Kingdom general insurance market with encouraging signs of improvement in a number of overseas markets.

★ The cost of bomb damage in the City of London will be charged in the second quarter. The effect on the profit and loss account is unlikely to exceed £25m.

★ Shareholders' funds increased to £2,091m including the proceeds of the rights issue.

#### HIGHLIGHTS

	3 months 1993 Unaudited	3 months 1992 Unaudited
Total premium income	£1,609m	£1,285m
Operating profit/(loss) before taxation	£16.2m	£(19.2)m
Operating profit/(loss) after taxation	£8.9m	£(23.1)m
Operating profit/(loss) per share	1.2p	(5.1)p

Commercial Union plc, St. Helen's, 1 Undershaft, London EC3P 3DQ

#### DIVIDENDS ANNOUNCED

Company	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Acatos & Hutcheson	3	July 25	2.5	-	6.5
Anglo Irish Bank	1.35p	Aug 11	1.35	-	3.35
Baggeridge Brick	0.75	Aug 11	0.75	-	3.125
Barris	nil	Aug 11	nil	-	2
Bass	5.45	July 30	5.25	-	18.9
Chamberlain & Hill	4.5	July 31	4.25	6.25	6
Compass	4.44p	July 30	4.19	-	12.3
Dunedin World	2.4	July 5	2.4	-	9.5
Fulcrum Invest	2.92	June 30	-	13.07p	9.2
Gartmore Amer	1	July 1	1	4	4
Gateshead (Frank G)	2.25	July 6	2.25	2.25	2.25
German Invest	0.4	July 7	0.6	0.6	0.6
Leeds Group	2.75	July 1	2.33	-	7.33
M&G Income	1	July 20	1.3875	-	4.81
New Zealand Inv	0.5	July 9	0.5	-	1.1
Wills & Coroon	1.05p	July 1	3.3	-	13.2
Young Brewery	7.5	July 13	7.5	14.5	14.5

Dividends shown pence per share net except where otherwise stated.  
\*Adjusted for scrip issue. †On increased capital. ‡SUSM stock. §Makes 3.3p to date (8.6p). ¶Final of not less than 8.50p forecast on increased capital. ††Final of not less than 8.50p forecast on increased capital. †††Final of not less than 8.50p forecast on increased capital.

#### PUBLIC WORKS LOAN BOARD RATES

Effective May 15

Term	Quoted loans*		
	BPT	ASL	ASL
Over 1 up to 2	6%	6%	6%
Over 2 up to 3	6%	6%	6%
Over 3 up to 4	7%	7%	7%
Over 4 up to 5	7%	7%	7%
Over 5 up to 6	7%	7%	6%
Over 6 up to 7	7%	7%	6%
Over 7 up to 8	7%	7%	6%
Over 8 up to 9	7%	7%	6%
Over 9 up to 10	6%	6%	6%
Over 10 up to 15	6%	6%	6%
Over 15 up to 25	6%	6%	6%
Over 25	6%	6%	6%

\*Non-quoted loans A are 1 per cent higher and non-quoted loans B 2 per cent higher in each case than quoted loans. †Equal instalments of principal. †† Payment by half-yearly instalments of interest only. ††† Payment by half-yearly instalments of interest only.

## TICINO

The FT proposes to publish this survey on

June 17 1993

The FT is proposing to publish a survey on Ticino, Switzerland's scenic Italian Canton. The capital, Lugano, is the country's third biggest financial centre after Zurich and Geneva and, being close to Lombardy's major industrial complex, it has considerable growth potential.

The survey will also focus on the tourism industry and the new Gotthard rail tunnel project, as well as providing a guide to Ticino's many attractions and facilities for the business visitor.

For an editorial synopsis and available advertising positions, please contact:

Nigel Bicknell or Simone Egli  
Financial Times (Switzerland)

15 Rue du Cendrier, CH 1201, Geneva.

Tel: (022) 7311604

Fax: (022) 7319481

or

Patricia Surridge in London

Tel: 071-873 3426

Fax: 071-873 3428

or your usual Financial Times representative.

FT SURVEYS



## David Lascelles looks at the forthcoming electricity results season

From Littlechild is currently engaged on a review of the pricing formula in the electricity supply industry, and he is expected to announce the results in July.

Most analysts say he is unlikely to tighten the formula because he seems to want to encourage more entrants into this market.

More crucial will be the review of the distribution business which he will then embark upon.

This accounts for the bulk of the RECs' revenues, and any tightening of the regulatory regime would be reflected in REC profits and, therefore, in the dividends which provide the biggest underpinning to the sector.

hoping to use its experience in MetroGas as a base for moving into other gas projects.

- British Gas said it would drill its first well in the Black Sea in July after it won licences to explore for oil and gas in Bulgaria.

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## COMPANY NEWS: UK

## Weak demand trims Maple Leaf to C\$10m

By Bernard Simon in Toronto

FIRST-quarter earnings of Maple Leaf Foods, the Canadian food processor which is 56 per cent owned by Hilldown Holdings, dipped by almost 6 per cent as a result of weak demand and fierce competition. Net earnings were C\$10.2m (£5.2m) or 13 cents a share, down from C\$12m, or 15 cents a share, a year earlier.

Last year's figures exclude a C\$3.3m contribution from the discontinued edible oils business.

Sales dropped slightly, from C\$639m to C\$632m, but operating profits tumbled by 24 per cent to C\$13.2m. The directors explained that results were cushioned by higher interest income and lower tax provi-

sions.

Large tax payments made during the quarter have reduced cash reserves to C\$17.2m compared with C\$20.5m at the end of 1992. Long-term debt has grown from C\$12.5m to C\$43.6m in the past year.

The company said that many sectors of the retail food business had been hit by lower demand, competitive pricing and "trading-down" by consumers to lower margin products.

On the other hand, agribusiness earnings improved sharply, partly because of a rationalisation of facilities. Mr Charles Bowen, chief executive, forecast an improvement in earnings over the rest of the year thanks to lower costs and new products.

## Chamberlin & Hill 11% ahead at £1.6m

CHAMBERLIN & HILL slowed down in the second half with only a marginal improvement in pre-tax profits.

Accordingly, the increase over the year ended March 31 1993 was restricted to 11 per cent, with profits of £1.59m compared with £1.43m.

Turnover for the group, which makes iron castings, electrical conduit fittings and switchgear, improved from £19m to £20.3m. That advance

was wholly attributable to exports, the directors said, the prospects for which were good.

There was yet to be seen clear cut evidence of significant growth in UK demand, they added.

Earnings per share came to 16.07p (15.28p). The proposed final distribution amounts to 4.5p (4.25p), which lifts the total payable for the year to 6.25p, against a previous 5p.

## Engineers still wait to uncork champagne

The sector faces a slow recovery, according to the survey of the FT Six. Andrew Baxter reports

THE recession may officially be over, but the champagne is being kept on ice in Britain's battered engineering sector, which faces a slow, spasmodic recovery to "normal" levels of business.

The six engineering companies whose progress out of the recession is being tracked in the FT's occasional survey of the sector say conditions are improving - but not by much - and confidence within the customer base is picking up gradually.

The good news is that further job cuts are mostly off the agenda, as long as the gradual upturn does not grind to a halt.

At JCB, the construction equipment group, employees are even working a modest amount of overtime.

But, significantly perhaps, those ubiquitous phrases of the past few months - "We've definitely bottomed out" and "It's not getting worse" - have not yet been laid to rest.

Overall, he had seen a gentle improvement in UK business conditions, but a normal level of activity was probably some months away, perhaps in the autumn.

One hopeful sign comes in Senior's contract heat treatment business, which takes in metal components from a wide range of manufacturers and beats them for extra strength.

Here, there has been a good improvement in volumes, says Mr Bell: "This is a true indicator of the economy. It takes in business on a day-to-day basis,

and there is nothing more instant than that."

This is how things are looking for the FT Six.

Fenner, the power transmission and industrial conveyor belt group, announced its half-year results on Tuesday.

Pre-tax profits dropped from £2.35m to £105,000, but Mr Peter Barker, chairman, said customer confidence was rising.

With UK manufacturing output set to rise this year and next, the company was "well placed to derive maximum advantage from the recovery that now appears to be underway."

At Senior Engineering Group, the tubing, boilers and ductwork company, volumes have improved in some consumer-related businesses, although not in more investment-related sectors where the lead times are longer.

Mr John Bell, chief executive, says there is more confidence within industry, and speaks of "a will to see things improve."

Overall, he had seen a gentle improvement in UK business conditions, but a normal level of activity was probably some months away, perhaps in the autumn.

One hopeful sign comes in Senior's contract heat treatment business, which takes in metal components from a wide range of manufacturers and beats them for extra strength.

Here, there has been a good improvement in volumes, says Mr Bell: "This is a true indicator of the economy. It takes in business on a day-to-day basis,

and there is nothing more instant than that."

Mr Peter Burton, chief executive of Bloxwich Engineering, says: "I feel in my bones that perhaps the recession is over," but he warns that there will be no sudden revival of activity for the Walsall-based car and truck parts company.

The car side of Bloxwich's parts business has picked up, he says, due partly to continuing and forthcoming business from the Japanese transplants. But the truck parts business has yet to revive, and has not been helped by the receiver-ship of Leyland-DAF, an important customer.

Another "chink" which Mr Burton points to is Bloxwich's tool-making business, where press tool activity has increased. "To make cars, you need tools first," says Mr Burton, "and customers are now optimistic enough to release work."

Overseas markets, and particularly Germany, offer mixed prospects.

On the one hand, Mr Burton says, "We think the German economy is in a hell of a mess." But he hopes Bloxwich can benefit from the more international sourcing policy at Volkswagen under the new purchasing director, Mr José Ignacio Lopez de Arriortua.

The 600 Group, the producer and distributor of machine tools and materials handling equipment, has also been hit, at least in the short term, by the Leyland-DAF collapse.

The engineering company has 50 per cent of the market for truck-mounted cranes, and one-third of its products in this sector went on Leyland-DAF Trucks, says Mr Colin Gaskell,

managing director.

Overall, Mr Gaskell is unable to report any "vast upturn" in the UK market, but there are a lot more inquiries around, he says. "Our sales guys are much more optimistic than they have been." The rate of purchase by end-users of machine tools, as opposed to dealers, has picked up.

As at Bloxwich, Mr Gaskell is concerned about economic conditions on the Continent, which look "pretty sick."

But he thinks that the devaluation of sterling has created an opportunity to sell machine tools in Germany, where customers might refuse to pay the customary premium for domestically-produced equipment if it becomes excessive.

At JCB, the period from April-June is a traditional stage of increased buying by plant-hires and other users of earthmoving equipment, so gauging any upturn is difficult. But Mr Gilbert Johnston, deputy chairman, feels that the UK market "just has to be past the worst."

"Things are better, but it's not something we're jumping up and down about," he says. In broad terms, activity could still rise by between 25 and 30 per cent to reach normal levels for the domestic market.

Mr Johnston says the improvement will be gradual. Indeed he hopes this is the case, as that would produce a more stable and sustainable recovery.

Mr Johnston is not expecting any immediate help from the all-important UK construction market, where activity was described recently as still at dangerously low levels. Taking a five-year view, however, he says it looks good for improve-



A coal-fired boiler during manufacture at Senior, UK market leader for boilers projects in combined heat and power schemes

ment.

Finally, Mr Reg Bricknell, managing director of Posiva, the gears and drives producer, does not think that the recession is over, but there are pockets of industry producing more orders.

Although German-owned Posiva has had to adjust to the effect of the sterling devaluation on the products it brings in from Germany, it is also benefiting from increased activity among customers exporting from the UK.

The order intake in the first three months of the year was 36 per cent higher than the

comparable period of 1992. "This is not just green shoots," Mr Bricknell says. "It's due to the efforts from our salesmen."

The increase in business has been helped by equipment that Posiva is supplying to the big UK builders of power stations and water treatment plants in Asia.

In the home market, though, Mr Bricknell does not yet see sufficient stability to prompt confidence that activity will continue upwards. He would like to see a few more months of the same growth trend before declaring the recession over.

## NEWS DIGEST

### Anglo Irish Bankcorp rises 36%

PRE-TAX profits of the Anglo Irish Bank Corporation improved by 36 per cent to £4.41m (£4.33m) against £3.25m in the six months to March 31.

Mr AG Murphy, the chairman, said the bank had continued to move ahead strongly in the treasury deposits area, building its deposit base up to £396m.

Mr Murphy particularly noted that during the six months the bank gained market share in the personal and corporate deposit sector where the customer base had increased by 23 per cent.

He added that in March the International Banking Credit Agency had affirmed the bank's strong credit rating. A maintained interim dividend of 1.56p has been declared out of earnings of 2.74p (2.69p).

### Tharsis applies for listing cancellation

Tharsis, the Glasgow-based group mainly involved in property development in Spain, has applied to the Stock Exchange for a cancellation of its listing and permission to deal in its shares under Rule 55.2.

The rules of the Exchange require that at least 25 per cent of a company's shares must remain in the hands of the public.

Tharsis said that Inpec had recently acquired a further 462,190 shares in the company, bringing its holding to 1.26m or 48.36 per cent. Following that purchase, some 83.7 per cent of the company's shares are held by five shareholders.

It said that the recent low number of transactions in its shares was a further indication that the company's listing was no longer appropriate or cost effective.

Dealings under Rule 55.2 are expected to begin on May 24. Allied Provincial Securities are the company's broker.

### 50% profit decline at Baggeridge Brick

Baggeridge Brick suffered from reducing production in the winter, turning in a pre-tax profit some 50 per cent lower in the six months ended March 31 1993.

Mr Peter Ward, chairman, explained that production was cut in order to help contain the national over-capacity that was evident at the time. In the event there was "some satisfaction" with the results.

In the period turnover rose from £11.9m to £13.1m. Operating profit came to £905,000 (£1.41m) with building materials accounting for £438,000 (£284,000) and landsource £467,000 (£246,000). Pre-tax

profit worked through at £383,000 (£761,000).

Sales prices continued under pressure but the group's sales volumes and market share increased. Stocks were reduced considerably at March 31.

Mr Ward said demand was stronger for social and private housing, and brick and paving schemes were also on the increase. However, it would be some time before the commercial and industrial sectors of construction showed much improvement.

Earnings per share fell to 0.65p (1.29p) but the interim dividend is unchanged at 0.73p.

### Group Development assets increase

At March 31 1993 net asset value of Group Development Capital Trust stood at 51.3p, an increase of 34.8 per cent since end-September and of 30.1 per cent since March 1992.

Gross revenue for the half year came to £138,000 (£136,000) and net loss was £12,000 (profit £5,000), equal to losses of 0.05p (0.02p profit) per share.

The losses per share were were primarily the result of the increase in expenses occasioned by the management fee calculated on net assets.

However, the directors expressed confidence that the year's dividend would be maintained at 0.3p.

### 16% asset rise for Dunedin Worldwide

At the end of the half year to April 30, net asset value of Dunedin Worldwide Investment Trust stood at 702.5p, a 16.4 per cent increase over the 603.3p at the end of the preceding six months.

The increase beat the Morgan Stanley Capital International World Index rise of 14.9 per cent in sterling. At the end of April 1992 Dunedin's asset value was 568.7p.

In January funds were switched out of overseas markets and into the UK, as the managers felt the latter had yet to discount the full extent of the eventual recovery in company profits.

Total revenue in the half year came to £4.33m (£3.16m) and net revenue to £1.65m (£955,000), for earnings per share of 4.84p (2.78p). The interim dividend is held at 2.4p.

The 1992 net revenue has been reduced by £279,000 in reflection of the change in accounting policy on the recognition of income receivable in respect of fixed interest securities.

### Golden Vale stake in Danish company

Golden Vale, the Irish dairy group, has agreed to acquire 33 per cent of Danish company A/S Vejle Mælkfabrik, margarine manufacturer, for DKK75m (£2.6m), payable in cash on completion.

Golden Vale has an option to acquire a further 33 per cent by December 31 1993 for a similar amount.

In the year to September 30 1992 the Danish company made pre-tax profits of DKK5.8m on sales of DKK102.2m. Net asset amounted to DKK23.1m.

In April the Irish dairy group reported a 13.5 per cent increase to £116.7m in 1992 pre-tax profits.

Net borrowings fell to £27.5m (£20.6m), and gearing to 8.8 per cent (27.9 per cent). The company said this allowed it to spend "another £30m to £40m on acquisitions without having to go to the market."

Shortly after it completed the acquisition of Leckpatrick Holdings, a private dairy processor based in Northern Ireland.

The consideration consisted of 10-year loan notes, redeemable after one year, valuing each Leckpatrick share at 332p. There was a partial cash alternative up to a total of £24.34m.

### Spanish closure holds back Baris

Baris Holdings, which installs passive fire protection and drying systems, reduced its pre-tax loss from £948,000 to £351,000 in the year ended February 28 1993.

UK operations continued to perform well, but the year was affected by the closure of the unprofitable Spanish operation in the second half. Total losses incurred there, including closure costs, were £721,000, less a net tax credit of £383,000.

There were earnings per share of 0.29p (losses 13.3p) but no dividend is being paid (2p interim last time).

Mr Robert Smith, chairman, said price competition remained fierce and led to a reduction in margins on continuing activities from 17.4 per cent to 18.3 per cent.

He did not envisage a reversal of that trend over the next year and, with the reduced amount of work available, it was likely to effect the gross profit in the current year.

Current order book was £9m, against £14m last year, while inquiry levels were down from £84m to £45m.

A German subsidiary has been formed to exploit a market where margins were currently higher than in the UK and which should provide a stable work load over the medium term. A substantial contract had recently been won.

### Gartmore American net assets growth

Gartmore American Securities, a split capital investment trust which invests predominantly in higher yielding North American securities, reported a higher net asset value of 52.4p at the year ended March 31 compared with 35.3p previously.

Earnings per share rose from 4.29p to 4.39p and the dividend

total is maintained at 4p with a same again fourth interim of 1p.

Net revenue came through at £1.5m (£1.45m). Asset value of the zero dividend preference shares was 78.3p against 69.3p.

### Highbury screen contract for Avesco

Avesco, through its giant screen rental company Sereenco, has been awarded a five-year exclusive contract to manage Arsenal Football Club's two new Sony Jumbotron video displays.

The installation of the screens at each end of the Highbury ground to show pre and post match entertainment is planned for the autumn. Arsenal has invested £2.5m and will be the first soccer club in the UK to introduce them on a permanent basis.

Apart from 30 match days, Avesco will have access to remove the screens for use at other events.

### Frank G Gates better than expected

Frank G Gates, motor traders, vehicle distributors and contract hire concern, reported a pre-tax profit of £586,000 for 1992, against £1.32m, a fall of 32.6 per cent.

Turnover for the year was virtually unchanged at £56.7m against £56.4m.

Mr Edward Gates, chairman, said that the second half of the year turned out to be better than he had anticipated at the interim stage. He added that the first quarter of the current period had shown a considerable improvement over 1992.

Mr Gates said it was sufficient to justify a maintained dividend of 2.25p. Earnings for the past year fell from 4.85p to 3.65p.

### NZ Investment net asset value ahead

The New Zealand Investment Trust had a net asset value of 144.6p per share at April 30 against 101.7p a year earlier.

Net revenue for the half year fell slightly to £128,939 (£131,692), equivalent to earnings per share of 1.29p (1.32p). The interim dividend is held at 0.5p.

### Medeva in US dermatology alliance

Medeva and Matrix of the US have formed a major alliance in the field of dermatology to commercialise the novel Therapeutic Implant products being developed by Matrix for the US and European markets.

Medeva is to invest \$10m (£6.4m) in new Matrix common stock at \$15 per share and provide up to \$12m development and milestone payments. Under the terms of the agreement, Medeva will purchase Matrix stock during the first year of collaboration.



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John G. Harvey  
General Manager, Global Treasury  
State Bank of South Australia  
19th May, 1993

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**LONDON SHARE SERVICE**

## + or 1

215	67	312
246	67	312
109	12	13 336
70	11	13 336
111	11	68 1673
404	13	413
387	13	413
136	42	23 7
26	28	
259	23	336
203	13	336
203	13	336
44	12	682
184	87	67 1182
34	81	44
191	181	68 231
113	113	
113	113	
118	117	12 22
90	90	
32	4	44 88
4	4	82
1124		
145	64	23 6
23	23	6
834	82	100
17	15	
514	65	12 107
51	51	22 9
515	51	22 9
174	27	20
96	96	22 2
194	67	8
143	143	15 193
71	71	8
143	74	23

Gowett Strategic	K	240	240
Grahams Pintou		114	710

340	2.1	418.9
48	-	-
5	-	-
15	-	29.1
29	1.1	56.1
101	1.1	138.2
63	4.2	89.8
86	3.9	121.2
31%	-	-
108	8.5	118.8
18	-	-
175	8.8	295.5
107	-	112.5
26	5.2	56.9
18	-	-
31%	-	-
78	11.7	82.6
198	-	-
77	4.2	180.2
26	-	-

Investors Cap	124	134
Jos Hips Capital	81	81

92	13.8	-
83	18.9	-
73	-	21.9
53	4.2	76.1
15	-	-
44	-	-
435	4.7	521.8
1864	3.7	202.6
238	1.8	307.3
23	-	18.1
74	10.9	86.7
1382	-	-
176	2.1	244.0
108	4.3	178.2
215	0.1	351.5
313	-	403.8
11	-	-
92	-	105.7
47	-	-
540	4.9	527.8
96	-	713.4
85	-	104.9
30	16.8	-
554	-	103.2
18	-	73.9
71	-	-
17	5.0	88.4
135	4.7	220.3
230	4.3	246.6
183	-	-
1850	-	365.5
32	17.5	-
134	-	63.6
94	8.1	108.1
46	11.8	18.7
27	-	-
47	2.7	34.7
15	-	63.7
43	8.3	86.1

N & G 2nd Dual fac. ....	150	155
Cap ..... 450	450	455
Maleole ..... 121	121	124

119	3.9	126.0	
77	47	68.2	1
57	8.3	92.1	1
11			
276		0.1	397.1
338		0.0	222.3
33		4.7	146.4
6			
221	5.5	236.4	4
21	72.3	59.2	4
15		4.8	109.3
91	18.1		
127		212.1	2
266	2.3	353.0	
383	2.3	479.1	1
124	49	137.9	4
28			
118	3.5	3.7	122.6
35	6.0	119.3	
33			
28	5.9	40.7	3
113	7.8	168.2	1
42		9.7	13.1
262	4.4	305.3	4
276			
260	5.5	306.6	4
263	1.7	336.5	11
253			
763	12.7		
2720	3.7	178.0	42
2790	4.8	227.0	4
53			

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## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

## Questions raised on D-Mark

THE D-MARK'S weakness in the wake of Denmark's ratification of the Maastricht treaty was the dominant issue in foreign exchange markets yesterday, raising speculation that the German currency is on the verge of a sharp move downwards, writes James Blitz.

Dealers continued to unwind long D-Mark positions in the wake of the Yes vote in Denmark, pushing the German currency to a historic low against the Japanese yen, and helping sterling to break through the DM2.50 barrier for only the second time this year.

New-found confidence in European monetary union was always bound to weaken the German currency, which investors had used as a vehicle for hedging against another crisis in the exchange rate mechanism.

But the surprising aspect of the German currency's weakness yesterday was that it came on a day when the Bundesbank left interest rates unchanged. This was contrary to the expectations of many dealers, who had priced a 1/2 percentage point cut in the discount rate into their operations.

The yen closed at ¥68.04 against the D-Mark from a pre-

vious ¥68.65, while sterling closed up 1/4 pence at DM2.5025 in spite of retail sales figures which raised speculation about a cut in UK base rates this autumn.

There were other hints that the D-Mark's role in fund managers' portfolios was being reassessed.

A rise in German bond yields to 6.85 per cent implied that there were sharp flows out of the German currency. Some analysts suggested that zero spreads between French and German bonds were not inconceivable.

The dollar managed to hold steady against the German currency, despite a day which brought the worst US trade data in four years. The March trade deficit ballooned by 29 per cent to \$10.2bn, and the deficit with Japan leaped to a 5-year peak. However, the dollar closed in London virtually unchanged at DM1.8235.

The German currency gained

no strength against the Dutch guilder, despite a 10 basis point cut in the Dutch central bank's advances rate. At the close of trading in the exchange rate mechanism, the guilder was 98 basis points above the D-Mark in the currency grid, almost touching the self-imposed limit of 50 basis points set by the Dutch authorities.

Poorer than expected figures for German M3 money supply growth were a strong factor behind bearishness towards the currency. On an annualised basis, Germany's M3 money supply grew 7.3 per cent in April compared to 3.4 per cent in March.

However, Mr Steve Hannah of IBI International in London said there was a clear message in yesterday's events that the D-Mark was weakening. "We may be beginning to see an acceleration of a malaise that will characterise the D-Mark for the rest of this year," he said.

## EMS EUROPEAN CURRENCY UNIT RATES

	Unit	Central Rate	Current Rate	% Change from Central Rate	% Change from Previous Day	Divergence Index
Portuguese Escudo	200,484	166.115	166.115	-3.48	4.58	59
Spanish Peseta	166,639	166.115	166.115	-3.28	4.58	59
Italian Lira	2,036,000	166.115	166.115	-3.28	4.58	59
French Franc	6,559,540	166.115	166.115	-3.28	4.58	59
German Mark	1,000,000	166.115	166.115	-3.28	4.58	59
Dutch Guilder	2,000,000	166.115	166.115	-3.28	4.58	59
Belgian Franc	2,000,000	166.115	166.115	-3.28	4.58	59
Irish Punt	7,880,664	166.115	166.115	-3.28	4.58	59
Portuguese Escudo	200,484	166.115	166.115	-3.48	4.58	59
Spanish Peseta	166,639	166.115	166.115	-3.28	4.58	59
Italian Lira	2,036,000	166.115	166.115	-3.28	4.58	59
French Franc	6,559,540	166.115	166.115	-3.28	4.58	59
German Mark	1,000,000	166.115	166.115	-3.28	4.58	59
Dutch Guilder	2,000,000	166.115	166.115	-3.28	4.58	59
Belgian Franc	2,000,000	166.115	166.115	-3.28	4.58	59
Irish Punt	7,880,664	166.115	166.115	-3.28	4.58	59

Source: Central Bank of the Netherlands. Data as of 12.00 hours on May 19. Percentages are for the 12-month period ending May 19. The divergence index is the ratio between the current rate and the central rate, expressed as a percentage. The divergence index is calculated as (Current Rate - Central Rate) / Central Rate \* 100. The divergence index is rounded to the nearest integer.

## POUND SPOT - FORWARD AGAINST THE POUND

May 19	May 18	May 17	May 16	May 15	May 14	May 13	May 12	May 11	May 10	May 9	May 8	May 7	May 6	May 5	May 4	May 3	May 2	May 1	May 0	May -1	May -2	May -3	May -4	May -5	May -6	May -7	May -8	May -9	May -10	May -11	May -12	May -13	May -14	May -15	May -16	May -17	May -18	May -19	May -20	May -21	May -22	May -23	May -24	May -25	May -26	May -27	May -28	May -29	May -30	May -31	May -32	May -33	May -34	May -35	May -36	May -37	May -38	May -39	May -40	May -41	May -42	May -43	May -44	May -45	May -46	May -47	May -48	May -49	May -50	May -51	May -52	May -53	May -54	May -55	May -56	May -57	May -58	May -59	May -60	May -61	May -62	May -63	May -64	May -65	May -66	May -67	May -68	May -69	May -70	May -71	May -72	May -73	May -74	May -75	May -76	May -77	May -78	May -79	May -80	May -81	May -82	May -83	May -84	May -85	May -86	May -87	May -88	May -89	May -90	May -91	May -92	May -93	May -94	May -95	May -96	May -97	May -98	May -99	May -100	May -101	May -102	May -103	May -104	May -105	May -106	May -107	May -108	May -109	May -110	May -111	May -112	May -113	May -114	May -115	May -116	May -117	May -118	May -119	May -120	May -121	May -122	May -123	May -124	May -125	May -126	May -127	May -128	May -129	May -130	May -131	May -132	May -133	May -134	May -135	May -136	May -137	May -138	May -139	May -140	May -141	May -142	May -143	May -144	May -145	May -146	May -147	May -148	May -149	May -150	May -151	May -152	May -153	May -154	May -155	May -156	May -157	May -158	May -159	May -160	May -161	May -162	May -163	May -164	May -165	May -166	May -167	May -168	May -169	May -170	May -171	May -172	May -173	May -174	May -175	May -176	May -177	May -178	May -179	May -180	May -181	May -182	May -183	May -184	May -185	May -186	May -187	May -188	May -189	May -190	May -191	May -192	May -193	May -194	May -195	May -196	May -197	May -198	May -199	May -200	May -201	May -202	May -203	May -204	May -205	May -206	May -207	May -208	May -209	May -210	May -211	May -212	May -213	May -214	May -215	May -216	May -217	May -218	May -219	May 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## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

TECHNOLOGY THAT WORKS FOR LIFE

**Samsung Passino TV**

**Flat Square Tube  
NICAM Digital Stereo  
Well-Shaped**

**SAMSUNG ELECTRONICS**

Continued on next page

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**FINANCIAL TIMES**  
 Perrier battle ends with something for everyone

[illegible]



## AMERICA

## Dow improves slightly from sharp decline

## Wall Street

AFTER falling sharply in early trading yesterday, US share prices recovered to stand slightly lower at the halfway stage, writes Patrick Harverson in New York.

At 1 pm, the Dow Jones Industrial Average was 8.30 lower at 3,436.09. The more broadly based Standard & Poor's 500 was down 0.81 at 439.51, while the Amex composite was 0.02 lower at 428.20, and the Nasdaq composite up 1.97 at 682.75. Trading volume on the NYSE was 173m shares by 1 pm, and declines outnumbered rises by 1,126 to 647.

Prices fell sharply in the first few hours of trading in the wake of another rise in bond yields, which on Tuesday broke through the 7 per cent barrier for the first time in more than a month.

Although inflationary fears were again behind the fall in bond prices, news of stronger than expected imports in the April merchandise trade report also contributed to the selling of longer-dated Treasuries.

The declines were exacerbated by activity in the futures market, where the S&P 500 stock index futures contract fell through a technical support level, triggering selling in both the futures and the underlying cash markets.

At one stage during mid-morning the Dow was down almost 30 points. Once the futures-related selling was over, however, equities began to recover, and they were aided by a rally in bond prices, which brought the benchmark 30-year bond off its lows for the morning session.

Among individual sectors, gold stocks lost some of their lustre as profit-takers moved in following recent gains.

Newmont Mining fell 3% to \$51. Battle Mountain Gold fell 5% to \$9. In volume of 2.7m shares - the heaviest traded

issue in the market - and Homestake Mining gave up 3% at \$18.4.

Motor stocks also came under selling pressure. Ford fell sharply for the second consecutive day, dropping another 3% to \$51.92, and undermined by the news that brokerage house Merrill Lynch had lowered its intermediate-term rating on the stock.

Elsewhere in the sector Chrysler slipped 3% to \$42.4 and General Motors fell 3% to \$38.4, both in heavy trading.

Hewlett-Packard, which posted surprisingly strong quarterly earnings on Tuesday, continued to climb, adding 3% to \$55 in volume of 1m shares.

On the Nasdaq market, Microsoft jumped 2% to \$90.1 in volume of 2.5m shares after two broking firms upgraded the stock.

## Canada

TORONTO turned lower by midday as investors awaited details of the Ontario budget which was being announced after the market closed.

At noon, the TSX-300 index was 21.45 lower at 3,905.40 in volume of 47m shares. Among golds, Placer Dome shed 0.5% to \$22.7, but among firmer resources issues Breakwater added 2 cents to 30 cents.

## SOUTH AFRICA

JOHANNESBURG's gold share market racked up one of its highest ever daily gains, the sector index ending 213, or 13.3 per cent, higher at 1,817 after an intraday peak of 1,938 as billion broke through the \$370 and \$380 an ounce resistance levels on speculative and investment fund buying.

The overall index finished 11 ahead at 3,984 and Industrials 24 better at 4,494. Marginal gold mines showed the sharp rise, with Deeps jumping 140 cents, or 37 per cent, to R5.20 before closing 130 cents up at R5.10.

## EUROPE

## Bourses switch into reverse in late trading

EARLY improvement on the Danish Maastricht vote was eroded yesterday as bourses reviewed unexpectedly high money supply growth in Germany, and the absence of interest rate cuts at the Bundesbank meeting.

The Eurotrack index produced an intraday switch into reverse, the trend apparently confirmed by a weak start on Wall Street, writes Our Markets Staff.

MILAN was in optimistic mood and a broadly-based rally took the Comit index up 14.30 or 2.6 per cent to a 21 month high of 558.49.

A half point fall in Italy's minimum repurchase rate to 10.50 per cent, the lowest since November 1991, was seen as setting the stage for a discount rate cut of at least half a percentage point, possibly after the government approves a L13 trillion package of deficit cuts in the next few days.

Mr Marco Tronchetti Provera, CEO of Agnelli, said in Milan that strong foreign demand, particularly for the telecommunications sector. At the same time, domestic

funds were reluctant to sell since the Comit's breach of the 550 level opened the way for a technical rally to around 580, he said.

Flat remained volatile, fixing L373 or 5.9 per cent higher at L6,700 but easing to L6,500. Generali added L1.65 or 3 per cent to L38,650 before L38,550 after-hours and Mediobanca was L799 or 4.8 per cent higher at L17,199 as foreign funds increased their weighting of the Italian market.

Olivetti rose L61 or 4.5 per cent to L1,410 before L1,420 on the kerb in continued response to Monday's rights issue, while Parmalat added L876 or 4.3 per cent to L16,437 on further consideration of its rights issue terms.

ZURICH edged forward to a third consecutive record close, ahead of today's Ascension Day holiday which marks the start of a long weekend away for many investors. The SMI added 0.1 to 2,297.0, continuing to take a lead from the strong dollar.

The market began firmly, as positions were squared ahead

## FT-SE Actuaries Share Indices

THE EUROPEAN SERIES										
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close		
FT-SE Eurotrack 100	1154.22	1154.27	1154.38	1152.91	1152.28	1148.55	1148.76	1147.87		
FT-SE Eurotrack 200	1220.08	1218.68	1217.84	1216.45	1215.91	1211.81	1213.10	1212.27		
	May 19	May 18	May 17	May 14	May 13	May 12				
FT-SE Eurotrack 100	1152.98	1148.07	1148.21	1152.16	1148.06					
FT-SE Eurotrack 200	1217.75	1214.06	1212.97	1219.59	1215.04					

Base value 1000 (25/10/90) Republish: 100 - 1155.00; 200 - 1221.00; 1000 - 1147.80; 2000 - 1211.00

of tomorrow's expiry of futures and options on Soffex, but prices eased back from their best levels later.

Holdersbank bearers added SF17 to SF1656 in active trade ahead of presentations to analysts next Monday and amid optimism at the outlook for first quarter results.

Winterthur certificates shed SF7 to SF1614 on further consideration of plans to swap its certificates into registered shares after splitting registered shares and bearers on a five for one basis. The registered shares shed SF740 to SF13,060.

FRANKFURT's financials reflected its fiscal disappointments, Allianz falling DM23 to

DM18 to DM220 after reporting a first half loss.

Mr Adrian Hopkinson of Nat West Securities thought that Douglas might reflect difficulties reported in luxury products at Wella yesterday, ironically, Wella rose DM17 to DM719 as it forecast another drop in raw material costs this year, after a fall of 7 per cent helped margins in 1992.

AMSTERDAM fell back sharply in reaction to the German M3 data, a weak opening on Wall Street and options activity. The CBS Tendency index lost 2.1 or 2 per cent to 104.2.

Unilever and Heineken were among the day's biggest losers, both falling F12.80 to F1190.60 and F1178.80 respectively. Heineken has been falling recently partly on speculation about possible losses at the Spanish brewer in which it holds a 50 per cent stake.

PARIS, on the last day of the account, saw high turnover which was swelled by a number of block trades crossing the market during the session. The CAC-40 index, which had ear-

lier seen a day's high of 1,853, finished down 9.62 at 1,836.78 in turnover of some FF14.8bn.

One of the day's biggest losers was Michelin, down FF6.50 or 3.8 per cent at FF141.50, while BSN managed a modest FF1 rise to FF164 following Tuesday's fall after it announced plans to cut prices on some of its products.

MADRID hit another downgrade in its erratic post-devaluation career, the general index closing 1.70 lower at 255.19.

STOCKHOLM added options-related selling in Astra A, down SKR12 to SKR730 after an initial jump of 0.50 to SKR780, as the Astra shareholders' general index fell 6.7 to 1,076.5.

COPENHAGEN lost much of its early gains as the details of tax reform plans took over from the Maastricht vote. The KFX index closed 0.22 up at 87.09 in turnover of DKr1.1bn. HELSINKI was stronger after a threatened strike in the country's export sector was called off. The HEX index gained 32.5 or 2.7 per cent to 1,217.2 in turnover of FM230m.

## ASIA PACIFIC

## Nikkei shows mild recovery amid bargain hunting

## Tokyo

INDEX futures sales were outweighed by bargain hunting government buy orders and short-covering, and the Nikkei average closed at its intraday high in light trading, writes Wayne Aponte in Tokyo.

The Nikkei ended 151.40 firmer at 20,380.79, after a session low of 20,123.70. The Topix index of all first section stocks appreciated 8.83 to 1,597.96. In London the ISE/Nikkei 50 index eased 0.56 to 1,229.16.

Volume on the first section of the Tokyo Stock Exchange was 380m shares, barely changed from the previous day. Advances outnumbered declines by 593 to 423, with 167 issues unchanged.

Brokers said investors had been waiting for a possible retreat below the 20,000 level. But once the 235-issue average maintained its ground, buyers

entered the market at the lower end of its range.

An analyst at a Japanese brokerage said domestic institutional investors dominated the day's activity, with international investors taking light profits. Equity prices, he added, are expected to trade within a narrow range until market participants have digested recent company results and forecasts.

Investors focused on issues with good earnings for the financial year to March 1993. JGC, the engineering company, rose Y100 to Y2,330 following its better than expected results.

Takuma, the boilermaker, advanced Y70 to Y1,400 as market participants speculated that its earnings will reach peak levels.

The non-ferrous metals sector rose in tandem with gold prices in overnight trading in New York. Sumitomo Metal

Mining, the day's most active issue, climbed Y50 to Y1,160, Mitsubishi Mining and Smelting Y13 to Y558 and Mitsubishi Material Y3 to Y525.

Some real estate issues advanced after the Japan High Rise Condominiums Association estimated that condominium sales would increase by more than 50 per cent this current fiscal year. Daiyoku put on Y40 at Y1,320 and Nichimou Y2 at Y557.

However, Honda, which announced a 32 per cent decline in pre-tax profits, retreated Y50 to Y1,380. Suzuki declined Y14 to Y966.

Profit-taking pushed some shipbuilding issues down following Tuesday's advance. Ishikawajima-Harima Heavy Industries slipped Y4 to Y317, while Hitachi Zosen relinquished Y8 to Y575.

In Osaka, the OSE average ended 72.11 higher at 22,633.09 in volume of 31.2m shares.

## Roundup

PROFIT-TAKING was much in evidence yesterday.

HONG KONG slipped back following record highs earlier this week. The Hang Seng index eased 55.42 to 7,093.88. Turnover fell to HK\$5.2bn from Tuesday's HK\$6.3bn.

Some analysts commented that the market was likely to consolidate after its recent rally, while switching among major stocks and to second and third liners was also noted.

HSBC Holdings and Cheung Kong were sold down a respective 50 cents and 10 cents to HK\$1.50 and HK\$27.10. However, Jardine Matheson went against the trend, rising HK\$1 to HK\$35.50.

SINGAPORE was also easier, although the Straits Times Industrial Index recovered from an intraday low of 1,686 to finish only a net 1.40 off at

1,676.61. Volume was estimated at 403.2m shares.

Fraser & Neave and Sembawang Shipyard receded 40 cents apiece to S\$12.60 and S\$12.40 respectively.

SEOUL, however, went higher for the third consecutive session, with securities houses giving good performance. Daewoo Securities moved forward Won300 to Won230 and Lucky Securities Won300 to Won200.

The composite stock index closed 2.15 firmer at 724.76 in turnover of Won759.6bn.

TAIWAN fell back as turnover shrank from T\$23bn to T\$18.5bn, its lowest level since February. The weighted index lost 48.85 to 4,446.54.

Activity was dampened by concern over investigations into alleged trading irregularities which are being investigated by the authorities.

MANILA lost ground for the second day running on a com-

hination of disappointing economic data and a severe power shortage. The composite index declined 21.78 to 1,574.36 in turnover of 408.6m pesos.

KUALA LUMPUR was firmer, with activity concentrated in blue chips. The composite index rose 3.97 to 729.43 in turnover of M\$1.7bn.

Sime Darby, however, fell 22 cents to M\$4.88 in volume of 2.85m shares.

AUSTRALIA rose in line with an improvement in the gold price. The All Ordinaries index put on 4.7 at 1,682.6, with the gold shares index advancing 82.0 to 1,798.3, its highest level since March 1990. Turnover came to A\$351m.

NEW ZEALAND was driven higher by Telecom, up 16 cents at NZ\$2.95, as investors responded to Tuesday's annual results, which included an increase in the dividend. The NZSE-40 index gained 27.57 at 1,615.91 in turnover of NZ\$67m.

## Economic worries take their toll

Michael Morgan says European equity turnover fell back in April

THE high levels of equity trading seen throughout Europe during the first three months of the year lost impetus in April as a raft of political and economic worries began to take their toll.

Turnover in the eight leading European markets fell by 25.3 per cent in April, reversing a 22.6 per cent March rise. April's decline reflected a fall in market indices, with the FT-A Europe Index losing 1.9 per cent over the month.

Mr James Cornish of Nat West Securities says lower turnover was particularly noticeable in the second half of the month as investors took profits. "In contrast to March when turnover swelled on a flat market, selling in April seems to have led to prices falling and volumes declining, in the absence of ready buyers."

He adds that while turnover was also lower overall on Seat International, the London screen-based dealing system for foreign shares, the fall was less pronounced than on

domestic exchanges. Seat turnover as a percentage of the domestic market rose to record levels for both French shares, at 53.1 per cent compared with 44.3 per cent in March, and German shares, 15.4 per cent after March's 11.6 per cent.

Mr Marcus Grubb of Salomon Brothers notes in his latest European equity strategy review that bourses had rallied strongly during the first three months, helped by strong US economic recovery and an appreciating dollar, and hopes of lower interest rates. At their peak in March and early April, the markets had risen by an average of 5 to 6 per cent since the start of the year and had outperformed bond markets.

Since late-March, however, deepening economic recession in continental Europe, a slower pace of recovery in the US, fears of intervention in Bosnia and turmoil in the confederation of Independent States had all weighed heavily on European equities, offsetting the benefits of the Bundesbank's

EUROPEAN EQUITIES TURNOVER										
Monthly total in local currencies (bn)										
Bourse	Jan 1993	Feb 1993	Mar 1993	Apr 1993	US \$bn					
Belgium	62.75	57.35	70.30	58.18	1.78					
France	106.66	127.98	159.17	117.45	21.95					
Germany	91.67	133.88	168.06	113.50	71.47					
Italy	25,143.20	28,045.20	31,337.60	31,098.40	20.84					
Netherlands	122.75	121.10	155.59	165.80	9.41					
Spain	653.20	664.91	856.96	598.87	5.13					
Switzerland	22.30	17.60	18.90	14.00	8.78					
UK	42.86	43.58	51.82	38.79	60.92					

Values represent purchases and sales. Italian data adjusted to include off-market trading. Some figures may be revised. Source: NatWest Securities

## easing of monetary policy.

German domestic turnover saw the highest fall of the month, 33.5 per cent from March's unusually high levels as worries about the economy grew. Spain came a close second, down 30.1 per cent as investors became uneasy about the peseta's outlook, and elections on June 8 which could produce a hung parliament.

French turnover dipped by 26.2 per cent as bourse indices

fell on concern about the new budget, while Switzerland contracted by 25.9 per cent as the market underperformed on the weak dollar and impatience over the delay in bringing down Swiss interest rates.

Italy eased 0.8 per cent from March's four-year record. The market index rose 10.8 per cent as the political climate looked brighter and investors refused to be put off by the ever-widening corruption scandal.

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS										
TUESDAY MAY 18 1993										
MONDAY MAY 17 1993										
DOLLAR INDEX										
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % Change on day	Gross Div. Yield	US Dollar Index	Day's Change %
Australia (65)	132.75	-2.1	128.52	93.61	112.08	127.72	-0.5	3.87	135.64	131.18
Austria (18)	143.42	-0.5	139.84	101.13	121.09	121.05	+0.8	1.69	144.10	139.36
Belgium (42)	146.46	-0.5	141.78	103.26	123.65	120.45	+0.1	4.70	147.18	142.32
Canada (108)	127.82	+0.8	123.55	89.59	107.75	117.84	+0.7	2.81	128.47	122.31
Denmark (33)	217.44	+1.5	210.48	133.32	133.59	134.69	-0.9	1.22	220.75	213.49
Finland (23)	95.98	+2.8	90.97	68.27	73.35	100.46	+2.5	1.12	91.44	88.42
France (38)	151.58	-0.1	148.74	106.68	127.97	130.30	+0.6	3.45	151.74	146.75
Germany (82)	110.62	-0.4	107.28	78.15	85.56	85.56	+0.1	2.28	107.58	78.38
Hong Kong (55)	238.45	+0.3	230.21	204.10	244.40	257.21	-0.3	3.21	238.54	275.05
Ireland (15)	159.42	-1.2	154.33	112.42	134.00	149.68	-0.5	3.54	161.39	150.06
Italy (73)	70.65	-1.7	68.40	49.82	69.89	77.93	+1.8	2.52	69.47	67.18
Japan (47)	140.94	-1.5	138.44	89.38	110.01	93.38	-1.4	0.84	143.07	138.35
Malaysia (88)	335.71	+0.9	324.92	238.69	253.38	332.02	+1.0	2.03	332.53	321.59
Mexico (18)	1503.71	+1.8	1455.09	1060.30	1209.00	1534.44	+1.6	1.32	1477.55	1459.97
Netherlands (24)	164.89	-0.5	159.62	118.27	136.22	137.01	+0.4	4.04	165.79	160.94
New Zealand (13)	48.89	-1.2	45.40	33.07	39.59	48.41	+0.0	4.74	47.44	45.88
Norway (22)	159.20	-0.3	154.12	112.26	134.42	148.72	+0.6	1.77	158.05	154.40
Singapore (33)	254.12	-0.1	248.01	179.19	215.16	183.30	+2.3	1.80	248.81	240.78
South Africa (80)	188.89	-1.3	182.63	133.02	158.28	193.80	-0.8	2.80	181.20	184.91
Spain (48)	129.84	+0.9	125.79	81.63	102.71	121.82	+1.5	4.08	126.80	124.57
Sweden (38)	177.13	-0.5	171.47	124.90	149.56	193.26	-0.3	1.76	178.10	172.24
Switzerland (55)	121.75	-0.5	117.86	85.65	102.81	111.83	+1.1	1.95	121.20	117.21
United Kingdom (218)	178.57	-0.4	174.32	124.77	149.41	171.32	-0.3	4.02	177.78	171.88
USA (519)	179.94	+0.0	174.18	125.88	151.93	175.84	+0.0	2.94	179.81	173.88
Europe (785)	144.48	-0.2	139.89	101.86	121.57	132.82	-0.2	3.58	144.70	139.64
Asia (100)	188.36	-0.4	181.05	117.31	140.46	160.14	-0.1	1.58	187.06	181.58
Pacific Basin (713)	145.16	-1.3	140.52	102.36	122.56	105.88	-1.2	1.12	147.12	142.28
Norw-Pacific (1478)	144.75	-0.9	140.13	102.06	122.21	117.28	-0.8	2.03	145.01	141.21
Europe-America (828)	176.67	-0.1	171.03	124.90	148.18	175.58	+0.0	2.34	176.57	172.77
World Ex. US (547)	124.44	-0.0	120.47	87.77	105.08	110.85	+0.5	2.51	124.77	87.67
Europe Ex. US (1965)	145.41	-0.5	140.52	102.36	122.56	105.88	-1.2	1.12	147.12	142.28
World Ex. US (1965)	145.41	-0.5	140.52	102.36	122.56	105.88	-1.2	1.12	147.12	142.28
World Ex. US (1965)	145.41	-0.5	140.52	102.36	122.56	105.88	-1.2	1.12	147.12	142.28
World Ex. So. Afr. (2124)	156.91	-0.5	150.83	109.95	131.04	137.61	-0.3	2.38	156.96	110.37
World Ex. Japan (174)	165.81	-0.0	160.51	118.93	140.12	159.80	-0.1	3.02	165.88	116.87
The World Index (2184)	156.03	-0.5	151.04	110.02	131.75	138.10	-0.4	2.36	156.79	151.63